



true right real

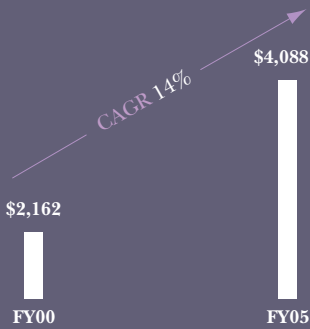
Brand portfolio

Constellation Brands, Inc. is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, spirits and imported beer categories.

For additional information about Constellation Brands, visit the company's Web site at www.cbrands.com.

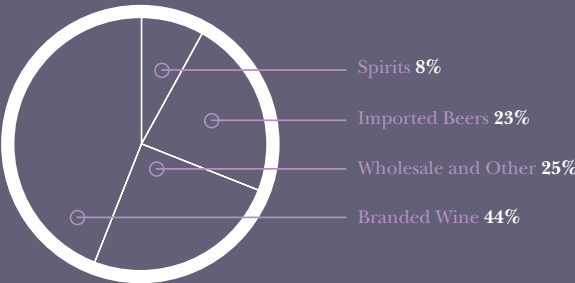
Sold in the U.S.	Canadian Whiskey	Fine Wine	Nathanson Creek	Popular Wine	Premium Wine
Beers/Cider	Barton	Ambiente	Paul Masson	Nathanson Creek	Banrock Station
China	Black Velvet	Barossa Valley Estate E&E	Paul Thomas	Paul Masson	Four Emus
Tsingtao	Canadian Host	Blackstone	St. Regis – Non Alcoholic	Vendange	Hardys
Germany	Canadian LTD	Brookland Valley	Taylor California Cellars	White Bluffs	Houghton
St. Pauli Girl Lager	Canadian Supreme	Chateau Reynella	Taylor New York	Wine Style Drinks	Moondah Brook
St. Pauli Girl Special Dark	Corby's	Columbia Winery	Vendange	Arbor Mist	Savy
St. Pauli Girl N.A.	Golden Wedding	Drylands	Waltzing Vine	Babycham	Selaks
Mexico	MacNaughton	Eileen Hardy	Sparkling Wine	Concorde	Stonehaven
Corona Extra	McMaster's	Estancia	Chase Limogere	Country Manor	Tintara
Corona Light	Northern Light	Franciscan Oakville Estate	Cook's	Pink Lady	Waltzing Vine
Modelo Especial	Schenley OFC	Hayman & Hill	Great Western	Rougemont	Yarra Burn
Negra Modelo	Cocktails	Houghton	Henri Marchant	Fortified British	Popular Wine
Pacifico	Chi-Chi's	House of Nobilo	J. Bonet	Wines/Other	Berri Estates
United Kingdom	Mr. Boston	Leasingham	J. Roget	Armadillo	Renmano
K Cider	Cordial/Other	Mount Veeder Winery	Le Domaine	Cherry B	Stanley Wines
Spirits	Amaretto de Sabroso	Ravenswood	Lorikeet	K Ice	Vineyards of Australia
Premium Spirits	Barton Triple Sec	Robert Mondavi Winery	Mondoro	Old England	Sparkling Wine
Balblair Single Malt Scotch	Heather Cream Liqueur	Ruffino	Taylor New York	QC	Arras
Black Velvet Reserve	Montezuma Triple Sec	Simi	Dessert Wine	Sanatogen	Omni
Caravella	Mr. Boston	Starvedog Lane	Cisco	Scotsmac	Sir James
Danfield's Private Reserve	Paul Masson	The Jibe	Cribari	Snowball	Sold in New Zealand
Canadian Whiskey	Cream Liqueur	Tintara	Italian Swiss Colony	Stone's Ginger Wine	Fine Wine
di Amore	Sabroso Coffee Liqueur	Yarra Burn	Paul Masson	Tudor Rose	Barossa Valley Estate
Effen Vodka	Spinelli Asti Spumante	Premium Wine	Taylor	VP	Castle Cliffs
Monte Alban Mezcal	Gin	Alice White	Widmer Dessert	Whiteaway's	Drylands
Old Pulteney	Barton	Banrock Station	Wild Irish Rose	Cider	Ebenezer
Single Malt Scotch	Crystal Palace	Coastal Vintners	Sold in Europe	Addlestones	Eileen Hardy
Paul Masson VSOP	Czarina	Covey Run	Fine Wine	Blackthorn	Founders
Grande Amber Brandy	Fleischmann's	Dunnewood	Barossa Valley Estate E&E	Cidermaster	House of Nobilo
Ridgmont Reserve	Glenmore	Fallon	Bay of Fires	Diamond White	Gaymer's Olde English
1792 Bourbon	Mr. Boston	Fernleaf	Blackstone	Ice Dragon	K Cider
Speyburn Single Malt	Schenley London Dry	Foolish Oak	Chateau Reynella	Natch	Old Somerset
Scotch	Skol	Four Emus	Drylands	Red C	Special Vat
99 Schnapps	Rum	Hardys	Eileen Hardy	Taunton Traditional	White Star
Whiskey Blends	Barton	Kelly's Revenge	Estancia	Water	
Barton	Beachcomber	Knife & Fork	Franciscan Oakville Estate	Strathmore	
Fleischmann's Preferred	Calypso	La Sierra	House of Nobilo	Matthew Clark	
Imperial	Fleischmann's	LaTerre	Leasingham	The #1 independent	
Old Thompson	Mr. Boston	Monkey Bay	Mount Veeder Winery	composite drinks	
Royale Club	Skol	Robert Mondavi	Ravenswood	wholesaler in the U.K.	
Schenley Reserve	Schnapps	Private Selection	Robert Mondavi Winery	Sold in Australia	
Bourbon	Barton	Papio	Robert Mondavi	Fine Wine	
Barclay's	Mr. Boston	Paul Thomas	Private Selection	Barossa Valley Estate	
Colonel Lee	Scotch	Selaks	Selaks Founders	Bay of Fires	
Kentucky Gentleman	Highland Mist	Seventh Moon	Simi	Brookland Valley	
Kentucky Tavern	House of Stuart	Smashed Grapes	The Jibe	Drylands	
Ten High	Inver House	Ste. Chapelle	The Lane	Eileen Hardy	
Tom Moore	Lauder's	Talus Collection	Thomas Hardy	Houghton Jack Mann	
Very Old Barton	Tequila	Turner Road Vineyards	Yarra Burn	House of Nobilo	
Brandy	Capitan	Twin Fin	Premium Wine	Leasingham	
Almaden	El Toro	Veramonte	Banrock Station	Starvedog Lane	
Barton	Montezuma	Via Firenze	Echo Falls	Tintara	
Fleischmann's CSR	Vodka	Viña Santa Carolina	Hardys	The Lane	
Hartley	Barton	Widmer's	Houghton		
Jacques Bonet	Blue Wave	Woodbridge by	MIAVINI		
Mr. Boston	Crystal Palace	Robert Mondavi	Robert Mondavi		
Paul Masson	Czarina	3 Blind Moose	Selaks		
Grande Amber	Fleishmann's	Popular Wine	Seventh Moon		
	Glenmore	Almaden	Shamwari		
	Mr. Boston	Arbor Mist	Stonehaven		
	Schenley Superior	Arbor Mist Wine Blenders	Stowells		
	Silver Wedding	Black Box	Turner Road		
	Skol	Chateau LaSalle	Veramonte		
		Echo Falls	White Cloud		
		Estate Cellars			
		Heritage			
		Inglenook			
		Manischewitz			
		Marcus James			

Financial highlights

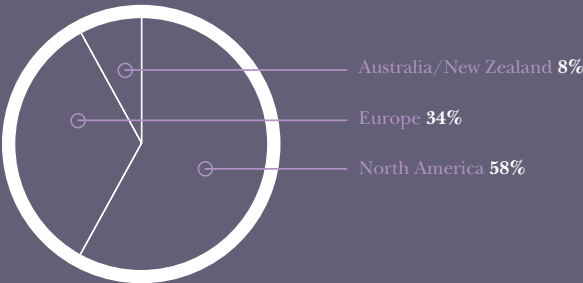


Net Sales

In millions



FY05 Net Sales by Category



FY05 Net Sales by Core Geographic Region



Diluted Earnings Per Share

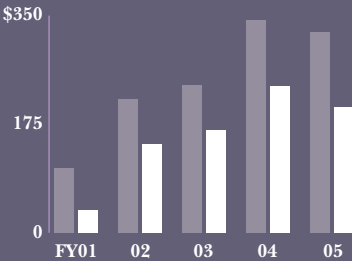
- Reported Results
- Comparable Results



Operating Income

In millions

- Reported Results
- Comparable Results



Cash Flow Data

In millions

- Net Cash Provided by Operating Activities
- Free Cash Flow

Financial highlights

For the Years Ended February 28 or 29 (in millions, except per share data)

	2005	2004	2003	2002	2001
Income Statement Reported Results					
Gross sales	\$5,139.9	\$4,469.3	\$3,583.1	\$3,420.2	\$2,983.6
Net sales	4,087.6	3,552.4	2,731.6	2,606.8	2,226.0
Operating income	567.9	487.4	405.0	339.9	270.9
Net income	276.5	220.4	203.3	136.4	97.3
Diluted earnings per share	1.19	1.03	1.10	0.78	0.65
Income Statement Comparable Results					
Net sales	\$4,087.6	\$3,543.2	\$2,731.6	\$2,606.8	\$2,226.0
Operating income	626.7	558.9	409.7	369.8	290.4
Net income	314.1	266.5	192.2	156.9	111.6
Diluted earnings per share	1.35	1.25	1.04	0.89	0.75
Cash Flow Data					
Net cash provided by operating activities	\$ 320.7	\$ 340.3	\$ 236.1	\$ 213.3	\$ 103.8
Purchases of property, plant, and equipment	119.7	105.1	71.6	71.1	68.2
Free cash flow	201.0	235.2	164.5	142.2	35.6

Comparable financial results, which exclude acquisition-related integration costs, restructuring and related charges and net unusual costs or gains, are provided because management uses this information in evaluating the results of continuing operations of the Company and internal goal setting. In addition, the Company believes this information provides investors better insight on underlying business trends and results in order to evaluate year-over-year financial performance.

The comparable financial results reflect the exclusion of: (i) financing costs of \$31.7 related to the write off of bank fees in connection with the repayment of the Company's prior senior credit facility and the call premium and unamortized financing fees associated with the redemption of senior subordinated notes for 2005, amortization expense of \$11.6 for 2004 for deferred financing costs associated with noncontinuing financing, primarily related to the bridge loan agreement in connection with the Hardy acquisition, and loss on extinguishment of debt of \$2.6 for 2002; (ii) adverse grape costs of \$9.8 for 2005, which represents the excess of Robert Mondavi's historical cost of grapes over the Company's ongoing cost of grapes; (iii) acquisition-related integration costs associated with the Robert Mondavi acquisition of \$9.4 for 2005; (iv) restructuring and related charges of \$7.6, \$31.2 and \$4.8 for 2005, 2004 and 2003, respectively; (v) the flow through of inventory step-up associated with the Robert Mondavi and Hardy acquisitions of \$6.4 for 2005 and \$22.5 associated with the Hardy acquisition for 2004; (vi) net gain on sale of non strategic assets and gain on transaction termination fee of \$3.1 and \$3.0, respectively, for 2005; (vii) the benefit from relief of excise taxes and duty taxes related to prior years of \$9.2 and \$2.3, respectively, and the associated costs of \$1.1 for 2004; (viii) the write down of concentrate inventory in connection with the Company's decision to exit the commodity concentrate product line in the U.S. of \$16.8 for 2004; (ix) imputed interest charges associated with the Hardy acquisition of \$1.7 for 2004; (x) a gain on change in fair value of derivative investments associated with financing the Hardy acquisition of \$1.2 and \$23.1 for 2004 and 2003, respectively; (xi) amortization expense of \$27.3 and \$19.5 for 2002 and 2001, respectively, reflecting the impact of SFAS 142 (goodwill amortization) as if it had been adopted as of March 1, 2000. All amounts are on a pre-tax basis. Net income and diluted earnings per share amounts on a comparable basis are net of income taxes at a rate of 36% for 2005 and 2004, 39.3% for 2003 and 40% for 2002 and 2001.

"Free cash flow" as used by the Company means the Company's net cash flow from operating activities prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP") less capital expenditures for property, plant and equipment. Free cash flow is considered a liquidity measure and provides useful information to investors about the amount of cash generated after such capital expenditures, which can then be used, after required debt service and dividend payments, for other general corporate purposes. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Free cash flow should be considered in addition to, not as a substitute for, or superior to, cash flow from operating activities prepared in accordance with GAAP.

True growth strategy

Our strategy is to use Constellation's product portfolio breadth, geographic diversity and operational scale in core markets to deliver increasing value and long-term true growth for shareholders. Our strategy provides us with the resources and flexibility to invest appropriately in our brands and business, address changing market conditions and consumer tastes, strengthen relationships with our business partners and expand our presence in the marketplace to achieve sustained superior financial performance.



We grow wine grapes on some of the finest *terroir* and at some of the best appellations on earth. Stretching as far as the eye can see, one of our Australian vineyards basks in the warmth of pre-harvest sun, yielding **true** grape and product excellence.



Because Constellation is the world's largest wine producer, we have the **right** resources to improve the craftsmanship and overall quality of the wines we produce around the world. The art of wine making is captured in this scene from one of our California wineries.



Like grapes for making wine and grain for producing beers and spirits, our strategy is based upon a fundamental and very **real** foundation that emphasizes our entrepreneurial culture and structure, as well as our disciplined management approach to running our business.



Richard Sands

Chairman of the Board and Chief Executive Officer

Dear fellow shareholders:

Constellation's stellar performance continued in fiscal 2005, and I am pleased to inform you that our results exceeded the company's previous achievements. On the pages that follow you'll learn how we attained those excellent results and established new benchmarks of performance excellence for Constellation Brands, such as record annual sales, net income, earnings per share and other important metrics.

In fiscal 2005 we surpassed the \$4 billion (USD) net sales mark for the first time in our company's 60-year history, representing a year-over-year increase of 15 percent. Our annual net income increased 25 percent compared with the prior year, also setting a record. In addition, the last three quarters of fiscal 2005 each exceeded \$1 billion (USD) in net sales, setting another record. While the numbers are always important, how we achieve, and exceed, our growth targets is what I believe differentiates Constellation Brands from its peers in the international beverage alcohol business.

True growth

We are achieving true growth on a daily basis, which we define as growth generating an economic profit on our investments above our cost of capital. Not all companies or products generate true growth, so I am particularly gratified to be able to talk about how well our company and brands performed in 2005 since we invested appropriately to support them.

I am also pleased with our results because we met the few challenges that we anticipated would materialize throughout the year, and we took advantage of opportunities within the highly

We are achieving true growth on a daily basis, which we define as growth generating an economic profit on our investments above our cost of capital.

Strategy gained momentum

Constellation Brands' true growth strategy gained momentum throughout fiscal 2005, contributing to financial performance results that yielded several records. While record net sales, net income and other milestones are gratifying and noteworthy, they could not be achieved without quality products and a commitment to true growth on the part of our 8,000 dedicated employees worldwide, whose immeasurable contributions led to our success.

Additionally, our portfolio breadth and operational scale helped us to increase our business and smooth out any peaks and valleys that routinely occur during the course of any given year and business cycle. Having a balanced portfolio, distribution strength and focused employees allows us to operate efficiently and effectively in an increasingly more competitive and consolidated business world.

In concert with our breadth and scale, our culture and values help guide us along the path of true growth success. We continue to gain momentum as we journey forward in our ultimate quest to be the beverage alcohol provider of choice for consumers, distributors and retailers the world over. To that end, we made great strides in fiscal 2005 by leveraging our global purchasing power and migrating to a common business applications platform, in addition to integrating the three transactions we closed in December 2004, the acquisition of The Robert Mondavi Corporation, the joint venture to market Effen Vodka and create other premium spirits and our investment in Ruffino Italian fine wines. It was a banner year for Constellation Brands and its true growth strategy.

competitive and consolidating business environment we operate in daily. Constellation Brands people proved to be more than up for the responsibilities at hand, which speaks volumes about our entrepreneurial structure and corporate culture, as well as the character and mettle of our global team. We triumphed and prospered to bring you the true growth performance you expect, and deserve, from Constellation Brands.

The right brands

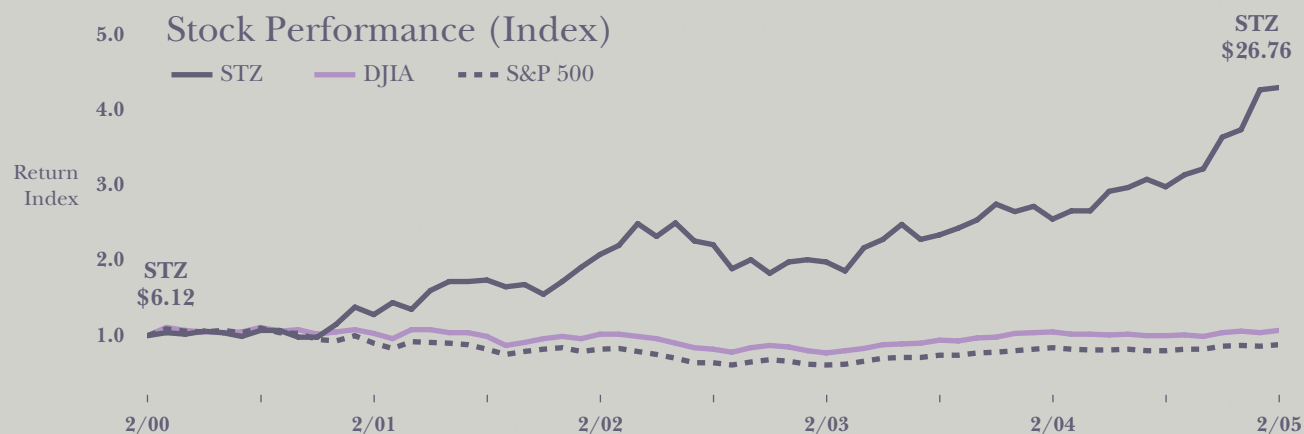
We always look for opportunities to meet consumer needs which, in turn, strengthens our relationships with distributors and retailers and adds breadth and scale to our business. It is a philosophy and business model that works. Real insights help us create the right products to attain real reach and achieve true growth. Having the right brands is one of the keys to success and, with more than 200 brands in our portfolio, we have unmatched breadth. Having the right brands for distributors, retailers and consumers requires that we employ our wealth of real insight into trends, as well as our vision to create products that appeal to our customers and consumers for the long term. Maintaining the right portfolio means we add, enhance, modify and, occasionally, retire brands as appropriate to meet increasingly more diverse consumer tastes.

Our strategic portfolio development comes in the form of new product development, line extensions, acquisitions, partnerships and even differentiated packaging. Last year I spoke of the integration of Hardy Wine Company Limited into Constellation Brands, and how valuable that addition became to our offerings, particularly in the United Kingdom and the United States.

In the fourth quarter of fiscal 2005 we enhanced our offerings once again, this time with a trio of investments that added more of the right brands to our portfolio.

Robert Mondavi joins the Constellation family

The most notable of these transactions, and the one that created new world wine history, was the acquisition of The Robert Mondavi Corporation on December 22, 2004. An industry icon, Robert Mondavi is credited with being the patriarch of fine wine production in California's Napa Valley, with the To Kalon vineyard being among the best *terroir* in the world. His wine legacy has given us some of the most popular and finest wines coming from California, and we



are delighted that he and his wife Margrit stayed with us as ambassadors for the magnificent Robert Mondavi Winery.

Our entrepreneurial structure and financial resources allow us to be nimble when an opportunity such as Robert Mondavi comes along. In the fall of 2004 we took quick and decisive action to ensure that the Robert Mondavi brands remained intact as a valued part of our portfolio. We are encouraged by the growth opportunities for Robert Mondavi brands, both in the United States and abroad, and will continue to build upon the rich heritage, tradition and quality represented by these superb wines.

The taste of Tuscany

In early December 2004 we became a 40 percent owner of Ruffino, the fine wine company producing excellent products from the Tuscany region of Italy. Dating back to 1877, and owned by the Folonari family since 1913, Ruffino exported 600,000 cases of wine to the United States in 2004. In addition to our 40 percent ownership, Constellation Brands became the importer of Ruffino brands to the United States on February 1, 2005. Incremental growth potential for Italian wine in the United States makes Ruffino a wonderful addition to our portfolio.

Smooth move brings Effen premium vodka aboard

Our premium spirits business saw Effen Vodka added to the portfolio through a joint venture with product innovator and marketer, jstar Brands, to form Planet 10 Spirits. This premium, flavored vodka comes from Holland, and the name “Effen” means “smooth” and “balanced” in Dutch. Its packaging, name, positioning and marketing created excitement in the initial test markets, and Effen is now rolling out nationwide. With the ever-increasing popularity of vodka in the United States, we are confident that Effen will be a resounding success.

New products and existing brands

Yet, acquisitions were only part of the story in 2005. We also added new products to our portfolio, relaunched others and created numerous line extensions. New wine brands that added more breadth to our offerings include Turner Road, Twin Fin, Lorikeet, Monkey Bay and Kelly's Revenge.

We also launched Ridgemont Reserve 1792 Kentucky small batch bourbon, which is aged for eight years. It was quickly dubbed the toasting bourbon for consumption at special occasions. 99 Oranges became the newest member of the “99” line of cordials, and Chi-Chi's added Mango

- #1 wine company in the world
- #1 fine wine company in the world
- #1 U.S. wine company by retail dollar value
- #1 wine producer in Australia
- #1 independent U.K. wholesaler
- #2 wine producer in New Zealand

Margarita to its lineup of premixed cocktails. St. Pauli Girl imported German beer added a draft version, Tsingtao beer from China got new 12-packs and our Mexican imported beer portfolio strengthened its market share position in our highly competitive beer territory, while Corona Extra extended its lead over the second place beer imported to the United States.

All in all, we increased our existing portfolio 9 percent in an environment where beverage alcohol only grew marginally. Much of this growth was accomplished through disciplined and targeted investments in marketing that supported key brands.

Entrepreneurial structure and culture

As I mentioned early in this letter, the numbers will always be important, and the brands will always be important, yet it is our entrepreneurial structure and culture that empowers Constellation Brands people to make daily decisions in the best interest of building the business while profitably growing our brands and generating shareholder value. Our culture fosters strategic, competitive thinking by people throughout each operating company, and challenges everyone to create new and better ways to run the business.

The nurturing of entrepreneurial spirit, combined with the freedom to try new and different strategies and tactics,

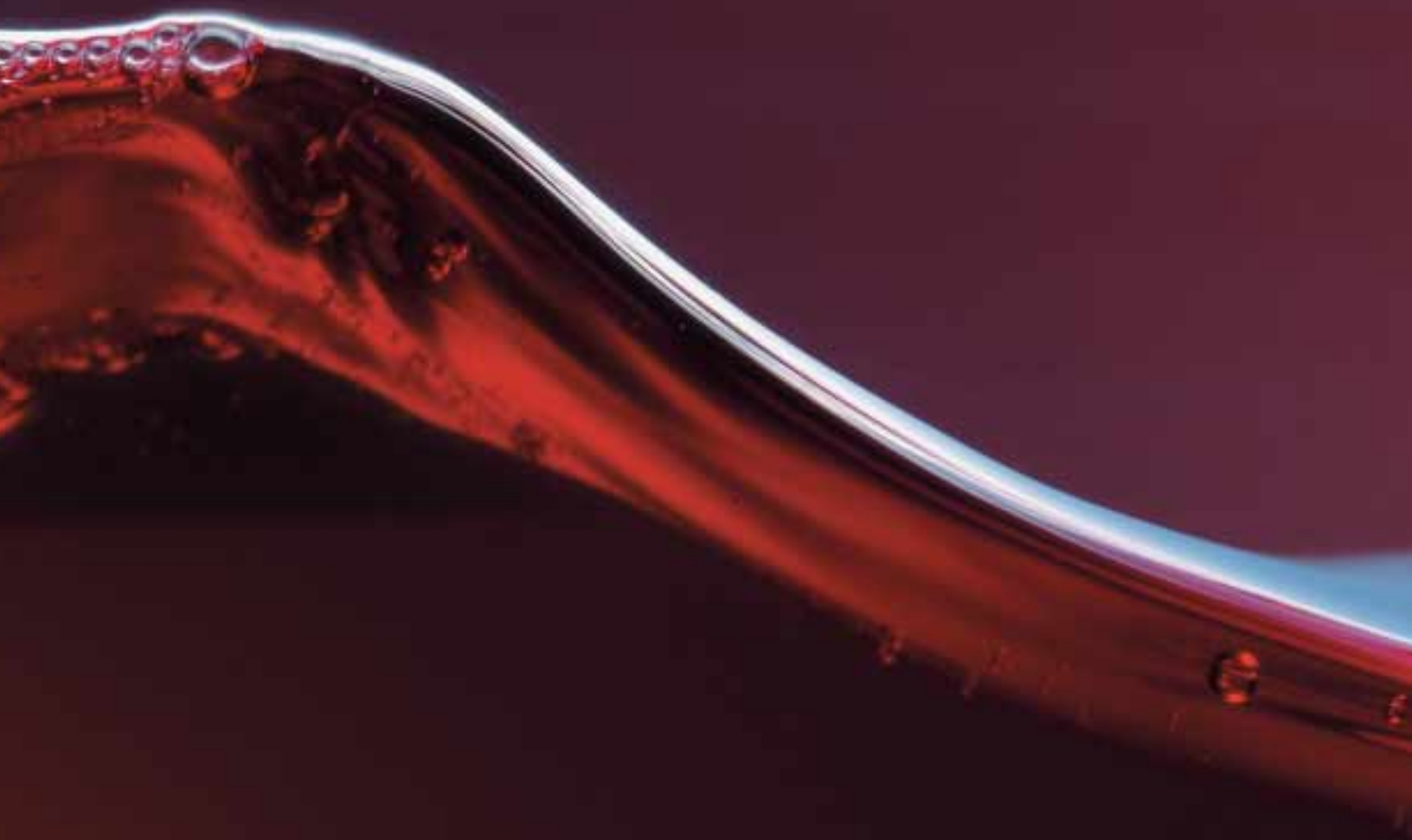
continuously energizes the 8,000 dedicated Constellation Brands people who bring home stellar results such as those in fiscal 2005. Collectively, the Constellation Brands team constantly raises the corporate performance bar for themselves, which benefits our customers, our consumers, and you, our valued shareholders.

Strategic vision

Our goal remains to be the beverage alcohol provider of choice for all occasions. That's what we strive to achieve in a dynamic industry and competitive business environment. Our commitment to, and focus on, having the right products, real insights and operational scale to deliver *true growth* is unwavering. Our passion for maximizing revenue, minimizing costs and maintaining the high quality of our products is woven into Constellation Brands' cultural fabric, and gives me a great sense of pride in our past accomplishments, as well as those we will achieve in fiscal 2006 and beyond.



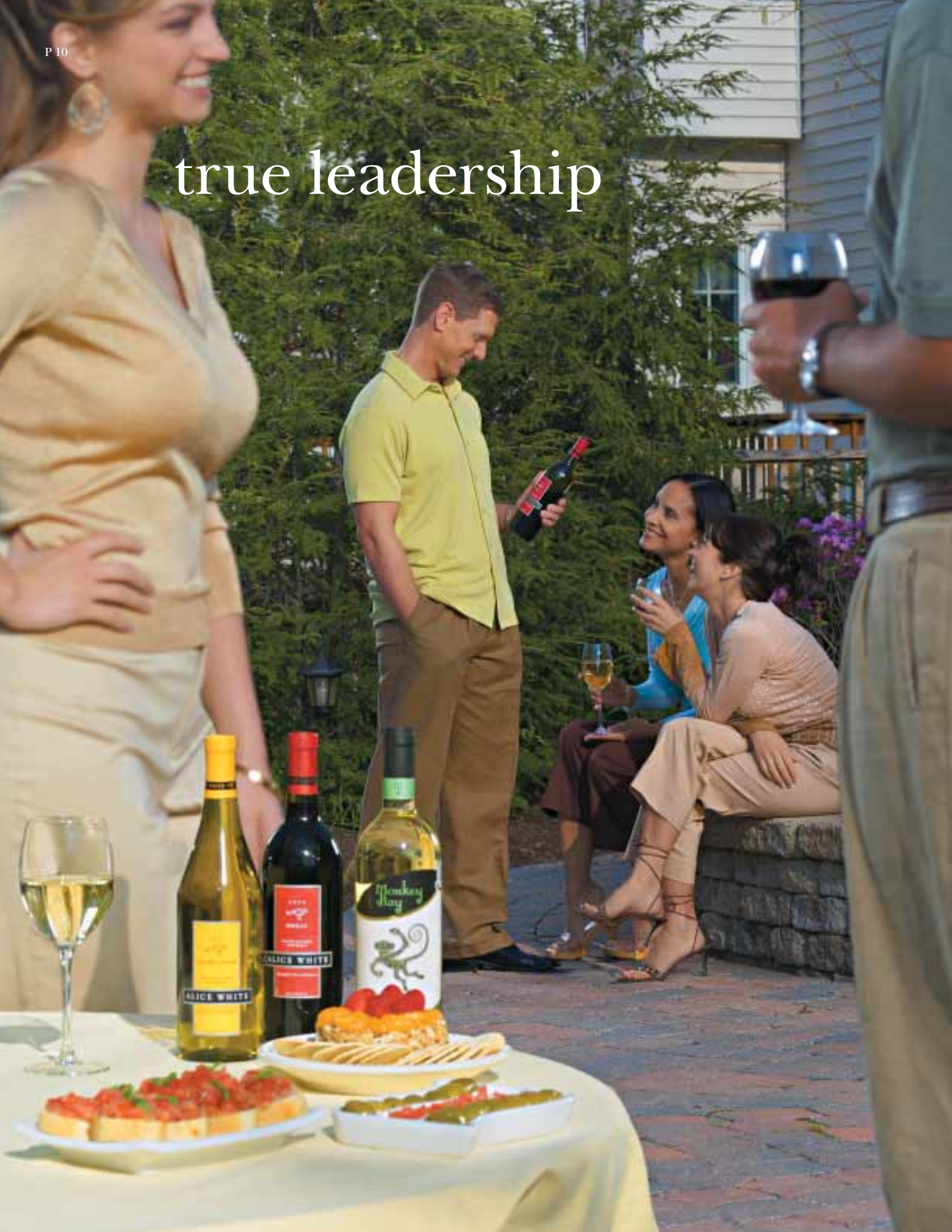
Richard Sands
Chairman of the Board and Chief Executive Officer



true right real

With an already unmatched wine portfolio, Constellation's position as the largest wine producer in the world was enhanced in fiscal 2005 with the additions of California's Robert Mondavi and Italy's Ruffino brands. In addition to the acquisition of Robert Mondavi and 40 percent ownership investment in Ruffino, Constellation introduced numerous new products to its wine portfolio, including Monkey Bay from New Zealand, Lorikeet and Kelly's Revenge from Australia, Twin Fin and Turner Road from California. We also invested to expand distribution and sales, especially for focus brands such as California's Blackstone and Ravenswood, in addition to Australia's Alice White and Hardys.

true leadership





True Leadership is a Constellation Brands core competency. The vision, creativity, character, adaptability, assertiveness and accountability of our global team affords us the ability to be responsive to ever-changing marketplace trends and exceed our customer and consumer expectations with our portfolio and services. By being nimble, Constellation continues to demonstrate its capabilities to identify, explore and act upon opportunities that add true growth and shareholder value to our business. In today's ever-more-complex global business environment, the true leadership imperative helps differentiate Constellation from its peers.

True leadership is the architect of true growth. At Constellation Brands, our vision of true growth is achieved by employing the full set of leadership skills intrinsic to an entrepreneurial structure: vision, capabilities, and a bias for action.

As with the Effen Vodka joint venture and the Ruffino Italian wine investment, both completed in late 2004, true leadership is exemplified by Constellation's acquisition of The Robert Mondavi Corporation. Robert Mondavi fills a void in our portfolio and adds 10 million cases of wine to our volume.

Certainly, the signs of true growth are already evident. With the addition of Woodbridge, the number one seller at its price point, Constellation improved its position and share of the \$5 to \$10 category to become the market leader. Already strong in the \$10 premium category with Ravenswood and Blackstone, the addition of Robert Mondavi Private Selection lifted Constellation to an even more powerful position there. Woodbridge by Robert Mondavi and Robert Mondavi Private Selection became part of the Constellation Wines U.S. portfolio.

Integration of Robert Mondavi within the Constellation structure began with the acquisition last December. Proceeding very smoothly, the assimilation of brands and business units was completed within a few months. Robert Mondavi Winery in Napa, and its brands, were integrated into our fine wine company, Franciscan Estates. While the integration of organizations can be unsettling in some cases, Constellation Wines U.S. and Franciscan Estates maintained the brand's powerful momentum within the marketplace by placing a strong emphasis on properly integrating Robert Mondavi throughout the process. As a result, Robert Mondavi Private Selection and the Robert Mondavi Napa brands continued uninterrupted midteen growth.

The addition of Robert Mondavi allows Constellation to leverage product portfolio and production efficiencies domestically and internationally. New blends and packaging for Robert Mondavi products in the United Kingdom are under way.

The significance of Robert Mondavi's international expansion is underscored by its position as one of the most widely respected and recognized new world wine brands around the globe, especially in key wine markets of Europe and Asia. With Constellation's international routes to market and resources, Robert Mondavi will be a key California brand to leverage our position internationally.

Through a Constellation initiative to take advantage of global sourcing, Robert Mondavi's direct materials purchases are being folded into corporate global supply agreements. Throughout Constellation, this leadership initiative saved many millions of dollars in direct and indirect materials and services in the few years since its inception despite the ongoing period of aggressively increasing commodities prices. Meanwhile, through its Value Engineering strategy, Constellation refocused its traditional raw materials practices to increase margins without sacrificing quality or diminishing the desirability of the product to the consumer.

While corporate acquisitions of this magnitude are generally classified by either synergy or growth, the Robert Mondavi transaction met the requirements for both. From a synergy standpoint, it filled a gap in Constellation's premium portfolio, and the company fit smoothly within Constellation Wines U.S. and Franciscan Estates operations. Growth opportunities are anticipated through new product development, existing products such as Woodbridge, Papio, Robert Mondavi Private Selection and Robert Mondavi Winery brands' sales, and international expansion.

The true leadership initiative that drove the successful integration of Robert Mondavi, as well as the Effen Vodka joint venture and Ruffino Italian wine investment, as well as so many other Constellation Brands initiatives, is guided by an entrepreneurial culture that values ingenuity, decisiveness, team building and the belief that we must not only be outstanding producers, but superior marketers as well. Driving performance and shareholder value must underlie all company efforts, which is an imperative shared throughout Constellation Brands.



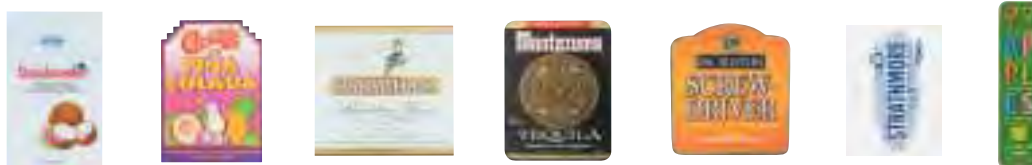


true right real

Having brands in significant segments of the spirits category gives Constellation marketplace strength and portfolio breadth. We've built on that solid foundation by adding premium spirits to our portfolio, such as Effen Vodka and Ridgemont Reserve 1792 bourbon, both newcomers in fiscal 2005. Together with Black Velvet Canadian whiskey and our other fine spirits, the new products added balance to our overall beverage alcohol offerings, while providing our customers and consumers with true value.

right brands





A primary reason for Constellation Brands' sustained year-over-year growth and favorable financial performance has been knowing which beverage alcohol products our customers and consumers want. Mining data to anticipate consumer trends is important to our success, and we feel as though we do it as well as anyone in the business. We've become experts at developing real insights into consumer and customer desires, and we stay in stride with changing trends and marketplace dynamics. We work closely with distributors and retailers to gather data and conduct research to help us develop these real insights. That effort maintains and increases our long-term business momentum and performance and helps us achieve true growth.

The revival of the cocktail culture creates significant Constellation true growth opportunities. Constellation Spirits has a powerful portfolio of the right products to satisfy emerging tastes of consumers with heightened levels of sophistication, purchasing capacity and sense of adventure. As imported vodkas and flavored spirits enjoy a surge in appeal, Constellation responds with specific products designed to satisfy growing on- and off-premise consumer demand.

Three trends in Constellation's favor are gaining momentum. First, with the best results in three decades, 2004 was the seventh consecutive year for case sale growth in the industry. Constellation is the premier value supplier of spirits in the United States and the third largest spirits supplier overall by volume. Second, growth in the industry is more prevalent in the premium category. Here, Constellation holds several strong positions aligned with its strategy to provide incremental marketing investments that increase volume of high-margin brands. Third is the changing palate of cocktail consumers. Today, upscale contemporary describes the cocktail scene where sociability, sex appeal and a prevailing Latin influence characterize the landscape. Younger adult beverage consumers have more discretionary income than previous generations. Furthermore, their willingness to experiment makes them more likely to select a fruit-flavored cocktail or single-serve drink. Constellation pursues this growth opportunity with new products and exciting promotions in line with the aspirations and lifestyles of these consumers.

Constellation also responds aggressively to the phenomenal rise in flavor experimentation. Sales of our 99 brand flavored schnapps grew 23 percent last year to more than 100,000 cases. 99 Oranges joined banana, blackberry and apple flavors of this high-margin line, which is very popular as a stand-alone drink, or mixed in signature cocktails. Enhanced promotional support this year is expected to further improve 99's impressive results. Additionally, the Caravella line of Limoncello and Orangetello liqueurs grew 43 percent, while Chi-Chi's added Blue Raspberry Lemonade and Mango Margarita to its flavor line of prepared drinks last year, and followed earlier this year with Chi-Chi's Mai Tais.

Since Black Velvet Reserve was repositioned two years ago, Constellation's premium Canadian whiskey sales have experienced 50 percent growth. During that time, standard Black Velvet grew 3 percent annually in a segment that was flat overall. Black Velvet, with domestic sales exceeding 1.6 million cases, is the first or second best selling distilled spirit product in seven states.

Launched in 20 states last September, Ridgemont Reserve 1792 competes in the premium, small batch bourbon market. Despite only four selling months and a planned, restricted state introduction schedule, it achieved number six ranking among all small-batch/single-barrel offerings for the year. In April 2005, distribution of Ridgemont Reserve 1792 was expanded to an additional 11 markets.

Vodka presents several opportunities for Constellation. In the value segment of this market, where 45 percent of sales occur, Fleischmann's, Barton and Skol brands perform very well.

A joint venture toward the end of the fiscal year filled a void in Constellation's premium imported vodka category – the single fastest growing segment in the industry.

Effen Vodka and Effen Black Cherry Vanilla Vodka are luxury, high-end products that create excitement in an environment defined by upscale, sophisticated young adults. Produced in Holland, the wheat-based Effen vodkas are distilled at low temperatures to insure as pure a taste profile as possible. The unique Effen packaging is a rubber-sleeved bottle that is easy to grip, insulated to maintain a chill, and visually fashionable and powerful. Initial sales have been strong. The joint venture plans to launch further entries into the premium spirits market. Effen's visibility and market presence will be greatly enhanced in summer 2005 through its role as sponsor of the United States tour of the Rolling Stones.

right relationships





The Mexican beers portfolio, which includes Corona Extra, Corona Light, Pacifico, Negra Modelo and Modelo Especial, maintained market share and experienced growth despite a challenging environment in fiscal 2005. Together with St. Pauli Girl from Germany and top-selling Chinese beer Tsingtao, our imported beers continue to provide breadth to our offerings in the United States.

Constellation Beers and Grupo Modelo have forged a unique partnership, based on mutual respect, to produce and sell quality beers. The partnership's success in the United States results from a collaborative effort to increase sales with innovative marketing and a superior selling organization. Constellation Beers generated true growth in 2004 as sales of its Modelo portfolio of Mexican beers reached nearly 60 million cases and accounted for nearly 45 percent of all imported beer sales in its United States territory of 25 mostly western states.

Corona Extra, the flagship brand of Constellation Beers, continues to extend its leadership of the imported beer category with 2 percent growth in 2004. Underscoring this position, Corona Extra outsells the second, third and fourth ranked imported beers combined. Moreover, in 2004, Corona Extra became the sixth best selling beer in the United States, whether domestic or imported, a first for any imported beer.

Consumer preference has propelled Corona Extra to the number one position among all Mexican beers in the world, and the fourth largest selling beer of any origin internationally. Like all Modelo beers, Corona Extra is produced exclusively in Mexico, thereby ensuring that its outstanding quality and consistency of taste is uniform in Mexico, the United States and 149 other countries around the world.

Corona Extra's famous "fun, sun, beach" marketing and promotional activities comprise one of the longest running, most consistent, and among the most successful advertising campaigns in television history. The genesis of this positioning occurred in the mid-1980s when marketing specialists from Modelo and a Constellation subsidiary worked closely together to develop this unique, unrivaled image, which continues to highlight Corona's success.

In addition to Corona Extra, the Constellation/Grupo Modelo portfolio includes Modelo Especial, a beer popular in the growing Hispanic

market, and the sixth most popular imported beer in the United States; number 14 Pacifico, a smooth lager growing in popularity with consumers; number 20 Negra Modelo, America's leading imported dark beer; and Corona Light, the most popular imported light beer in Constellation's territory. In addition to Corona Light's outstanding quality and consumer acceptance, cross-promotion with Corona Extra has led to its impressive ranking as the eighth best selling imported beer in the United States. A new stand-alone campaign for Corona Light, introduced in 2004, positions this product in a similar setting as Corona Extra, yet with its own unique personality.

Constellation works closely with Modelo to create appealing packaging that bolsters business development through the entire distribution chain, provides an extra level of convenience for the customer, and leads to further market share growth. Recent packaging improvements include new 24-bottle cases of Corona Extra, Corona Light and Pacifico, as well as 12-packs of Modelo Especial and Negra Modelo.

Constellation's international beer portfolio also includes fine products from Europe and Asia, both distributed on a national basis.

St. Pauli Girl is America's second largest selling German beer. The growth leader in the German category, St. Pauli Girl also outperformed the overall imported category in 2004. Tsingtao, America's favorite Chinese beer, enjoys overwhelming penetration throughout Chinese restaurants across the country. Constellation designed a new Tsingtao 12-bottle pack, which has led to additional off-premise growth for the brand over the past year.

Our Mexican, German and Chinese imported beers portfolio contributes to our true growth and gives us breadth, scale and a presence in this important beverage alcohol category.

right quality





For the performance they achieved during fiscal 2005, numerous Constellation brands were recognized by two highly respected industry newsletters. **IMPACT HOT BRANDS AWARDS** included Blackstone, Ravenswood, La Terre, Covey Run, Simi, Alice White and Hardys in the wine category, as well as Modelo Especial and Negra Modelo in the beer category. Adams gave Constellation 14 awards, more than any other beverage alcohol company. Growth awards went to Barton Vodka, Paul Masson Grande Amber Brandy, Skol Vodka, Chi-Chi's premixed cocktails, and in the wine category, Estancia, Robert Mondavi Private Selection, Alice White, Ravenswood, Blackstone, Hardys, Black Box, Nobilo, Papio and Woodbridge by Robert Mondavi.

Within the highly competitive global wine market, Constellation Wines fully exploits its structure, capabilities, corporate culture and considerable portfolio breadth and scale of operations to develop and market the highest quality, right products to capitalize on emerging international opportunities and drive revenues for true growth. We have quality at every price point.

Critical here is Constellation's prominence in every element crucial to success in the contemporary global wine market: strength in the key U.S., U.K. and Australian markets; a strong and diverse portfolio highlighted by the extremely popular new world wines; key additions in critical product categories; creative new product initiatives; substantial operating structure that provides economies of scale; and vital distribution and marketing capabilities.

Constellation is the world's largest maker of wine by volume and the leading producer of premium wine in the United States. Several factors underscore the significance of these positions. With few exceptions, all Constellation wines are new world products, and Constellation concentrates on premium brands. Concurrently, new world wines are growing at a double-digit rate globally, while sales of old world wine remain flat, although there are some opportunities in that category, such as Italian wine in the United States. Continued growth of Italian wine in the United States led to Constellation's investment in Ruffino. In the American market, domestic wines comprise 74 percent of sales, and premium wines are particularly popular. Including United States wines, new world wines hold 86 percent of the American market – the most profitable in the world. Imports of new world wine are growing significantly faster than old world wine in the United States, and Australia is expected to overtake Italy as the leading exporter. Constellation's Hardy Wine Company is a leading Australian wine producer. These trends resulted in a very favorable impact upon Constellation's true growth in wine in fiscal 2005.

In the United Kingdom, Constellation holds the leading wine market share – double that of its nearest competitor. Australia is the premier exporter to Britain, and the United States is closing in on the number two position. Sales by Constellation in Europe approach £1 billion,

including the company's Matthew Clark Wholesale Distribution Company, and volume exceeds 50 million cases.

Leveraging its broad portfolio of fine wines to drive true growth, Constellation targets its incremental marketing investments behind its most popular and growing focus brands. One noteworthy result is Blackstone California Merlot's emergence as the largest selling United States domestic red wine at any price in the most popular size – 750ml bottles. Alice White sales grew 37 percent in a year highlighted by an \$11 million network and cable television advertising campaign aimed at premium wine drinkers. Constellation's other focus brands continued their impressive growth, with Ravenswood rising 29 percent, and Hardys and Blackstone registering double-digit growth momentum.

Leveraging hard-won consumer confidence in its brands, Constellation successfully expanded several hot brands with new varietals, including Alice White Lexia, Estancia Pinot Noir and Pinot Grigio, and Ravenswood Australian Shiraz.

Creative marketing of this caliber inspires new product development – the lifeblood of the wine industry. Recent United States new product introductions include domestic wines such as Turner Road and Twin Fin, Australia's Lorikeet and Kelly's Revenge, and Monkey Bay from New Zealand. These lifestyle brands, with their creative names, generate considerable presence on crowded retail shelves. In Europe, Nobilo wines and Turner Road have been well received, along with Hardys VR and Hardys Voyage.

Acquiring 40 percent of Ruffino, the renowned Tuscan winemaker, puts forward a high-quality, old world brand presence for driving growth in an additional, powerful arena. Ruffino's significant U.S. popularity will be leveraged by Constellation's distribution capabilities in the Italian winemaker's largest export market.

Constellation's balanced portfolio combines product variety with quality to fill consumer, retailer and distributor needs at every price point. As consumers continue to trade up, Constellation is well positioned to meet their needs with unmatched breadth of offerings in key markets around the world.

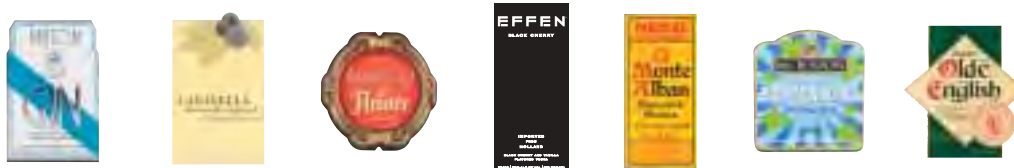


the true right real

Constellation's imported beer volume continues to grow throughout its U.S. territory. In a challenging environment, our Mexican portfolio maintained its market share and we experienced growth in the Mexican beers portfolio, especially Corona brands, Pacifico, Negra Modelo and Modelo Especial in fiscal 2005. Together with St. Pauli Girl from Germany and top-selling Chinese beer Tsingtao, our imported beers continue to provide breadth to our offerings in the United States.

real reach





Our ability to effectively compete and gain ground in the highly competitive beverage alcohol business is achieved because we have real reach. Constellation works diligently to build and maintain strong, long-term, mutually beneficial business relationships with suppliers, distributors and retailers, ensuring a home for our portfolio wherever consumers buy and consume beverage alcohol. Distribution strength in our key markets is another Constellation core competency.

Positioning itself for true growth, Constellation extends a real reach beyond traditional relations with distributors and suppliers to a higher plane where specifically designed value-added strategic programs enhance the mutual benefit to Constellation and these vital stakeholders. In turn, our real reach allows consumers to find our products where, and when, they want them.

As a creative approach to forging distributor bonds, the sponsorship of the Rolling Stones U.S. tour will serve as a growth vehicle for developing Effen distribution programs for execution at both on- and off-premise accounts.

The increase in mass merchandisers' share of the beverage alcohol market, together with the trend toward mergers among retail companies has resulted in fewer, but larger retailers for Constellation products. Responding to this increasing consolidation at the point of sale, Constellation is expanding its Category Management and Key Accounts support to leverage our portfolio breadth and expertise while helping major retail companies to better manage their beverage alcohol product category.

In Category Management, a retailer company appoints a supplier to help manage the product assortment and space allocation in that product segment. Here, Constellation companies apply data and market intelligence from several sources to help the retailer maximize profits. Constellation serves numerous large retailers both across and within beverage alcohol categories, and is investing incremental resources behind the effort.

Under Key Accounts Management, Constellation assembles a team to plan all activities with the particular retailer, and to manage the relationship, including promotion planning and implementation, sales forecasting, and all matters related to profitability. Because of Constellation's decentralized operating structure, however, local relationships continue to be managed at that point, but are complemented by a key account team and a single point of contact at headquarters.

The crucial support key accounts specialists provide to the growth of a Constellation product was exemplified early in 2005 when Monkey Bay was developed to tap the booming popularity of New Zealand sauvignon blancs. Featuring highly engaging packaging specifically targeted to younger adult consumers, key account representatives worked closely with buyers of major chains where the reaction was highly positive. This mutual respect not only facilitated the introduction of the product, but led to prominent positioning within many retail chains. Within three months of hitting the shelves, Monkey Bay became the top seller in its segment across the United States.

The success of Blackstone's California Merlot, the best-selling American red wine at any price point, in the popular 750 ml bottle, was developed on a key account by key account basis, primarily in the on-premise channel. Many of its very loyal drinkers first discovered the brand at a local restaurant. Enthusiasm for the brand spread primarily by word of mouth, spurred on by Blackstone's distinctive package, name recognition and taste. Significant to the success of this product are American wine drinkers who tend to prefer premium brands of high quality and distinction.

For the past six years Constellation Beers has participated in an all encompassing industry survey of wholesalers. Responses to a series of critical questions and issues help shape the company's business plan. To date, the feedback resulted in several programs designed to drive beer sales, by creating value-added wholesaler services and support. Overall, Constellation's ratings place it second within the entire industry in overall wholesaler support.

Internationally, Constellation's wholesale business in the United Kingdom, driven by Matthew Clark, represents great potential for the Company. The United Kingdom's largest independent drinks wholesaler, Matthew Clark is not only expected to increase its market share but, more important, expand its role as the link for our new world wines to the on-premise United Kingdom market, including the highly anticipated Robert Mondavi labels. Efforts, such as those described above, generate true growth and differentiate us from our competitors.

real insight





Drawing upon both internal and external resources and expertise, we keep our fingers on the pulse of consumer trends and try to anticipate and influence what people want in the form of beverage alcohol products. Real consumer insights helped us introduce wine brands such as Monkey Bay, Kelly's Revenge, Turner Road, Twin Fin and others during fiscal 2005. Ridgemont Reserve 1792 bourbon's fall 2004 introduction stemmed from the knowledge that consumers desire more premium spirits products. Effen Vodka was also created to meet such a need. We invested in Ruffino because it is clear to us that, especially in the U.S. market, fine Italian wine consumption continues to grow. We also recognized unrealized potential for the Robert Mondavi portfolio, which has tremendous possibilities for additional growth, especially in places such as the United Kingdom.

Real insights into consumer trends within the beverage alcohol business require close monitoring and careful observation of marketplace forces and phenomenon to correctly anticipate and identify opportunities with short- and long-term growth and share implications. This requires the foresight to identify opportunities for growth through new products, brands or line extensions, new packaging, creative promotions and marketing, partnerships and other support for our brands.

We utilize tools and strategies including structured marketing research campaigns, sales and market analysis, and monitoring market intelligence acquired through long-term, positive relationships with distributors, restaurateurs, retailers and media reports.

Strategically leveraging real insights led to true growth for the Twin Fin line of six red and white wines. Introduced in fiscal 2005, Twin Fin was developed to fill a major niche opportunity for fun, lifestyle products for young adults at an attractive price point. Overwhelmingly positive response to its concept and packaging during intensive consumer research targeted at 25- to 35-year-olds was enthusiastically validated by distributors, restaurateurs and retailers. By a wide margin, it was discovered that younger adult wine drinkers preferred the screwcap to the traditional cork. They found Twin Fin's removable closure to be a significant convenience feature that supports their uncomplicated lifestyle. During the product's first three months, more than 125,000 cases were sold, and Twin Fin has outsold at least three popular competitive brands during comparable early post-launch periods.

In addition, Robert Mondavi wines sold in the U.K. will have screwcap closures. Because of this overwhelming positive response to screwcaps within defined market categories, Constellation is featuring this closure on other wine brands including select varietals of Banrock Station and Leasingham, and is positioned to apply it to two new brand launches

in 2005: The Jibe from New Zealand and Four Emus from Western Australia. Overall, Constellation plans to ship approximately 350,000 cases of premium wine in 2005 with this closure.

Applying real insights to generate true growth requires proactive strategies to fully exploit branding and marketing opportunities. Building strong brands is especially critical in the wine market. Research confirms that wine selection is a threatening process for many consumers, but is made less intimidating by selecting recognized brands. Brand equity provides consumers with a level of familiarity and comfort that allows them to experiment with line extensions, new packaging and other innovations.

The Ravenswood Australian Shiraz introduced last year is an excellent example of leveraging brand equity to create organic growth. Constellation employed its ample supply of high-end Australian Shiraz grapes to create a line extension for Ravenswood, one of the industry's hottest-selling brands. In a creative twist that honors both the wine's Australian heritage and American brand, the Ravenswood label was redesigned with three kangaroos replacing the traditional three ravens. Within the marketplace, response has been very favorable.

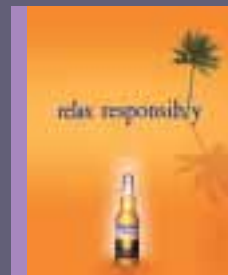
Real insights are demonstrated in many ways, including the addition of Effen in the Constellation portfolio to fill an open niche for a high end premium imported vodka. This insight led to a joint venture with Effen's creator, jstar Brands, for distribution of a product that leverages Constellation's sales and distribution capabilities. Looking forward, the new venture, Planet 10 Spirits LLC, will develop and market further luxury spirits brands. Real insights about the growing U.S. demand for Italian wine also led to the investment in Ruffino. Having real insights such as these helped us achieve true growth in fiscal 2005, and this will continue to be a valuable tool as we work to achieve future goals.

Corporate Social Responsibility at Constellation: At the heart of how we do business.

At Constellation Brands, we believe the tremendous breadth of our portfolio, with more than 200 brands across categories, price segments and geographies, makes us unique among the world's leading beverage alcohol companies. Our wine, imported beer and spirits products allow us to provide millions of adults with a broad range of choices. Whether relaxing at home or celebrating a special event with family and friends, we encourage people to enjoy our products responsibly.

Producing and selling popular, high quality products is just part of our job. Equally important is Constellation's commitment to ensuring that our marketing and advertising reflect the industry's highest standards and best practices. Constellation promotes the responsible consumption of our products on our web sites, in advertising and promotions, and on packaging.

A copy of Constellation's Global Code of Responsible Practices can be found on the company's Internet Web site at www.cbrands.com.



One example of our proactive responsible consumption activities is this Corona print ad for consumer publications.

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(In thousands, except per share data)

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>	<i>February 28, 2002</i>	<i>February 28, 2001</i>
Sales	\$ 5,139,863	\$ 4,469,270	\$ 3,583,082	\$ 3,420,213	\$ 2,983,629
Less – excise taxes	(1,052,225)	(916,841)	(851,470)	(813,455)	(757,609)
Net sales	4,087,638	3,552,429	2,731,612	2,606,758	2,226,020
Cost of product sold	(2,947,049)	(2,576,641)	(1,970,897)	(1,911,598)	(1,647,081)
Gross profit	1,140,589	975,788	760,715	695,160	578,939
Selling, general and administrative expenses ⁽¹⁾	(555,694)	(457,277)	(350,993)	(355,269)	(308,071)
Acquisition-related integration costs ⁽²⁾	(9,421)	–	–	–	–
Restructuring and related charges ⁽³⁾	(7,578)	(31,154)	(4,764)	–	–
Operating income	567,896	487,357	404,958	339,891	270,868
Gain on change in fair value of derivative instruments	–	1,181	23,129	–	–
Equity in earnings of equity method investees	1,753	542	12,236	1,667	–
Interest expense, net	(137,675)	(144,683)	(105,387)	(114,189)	(108,631)
Income before income taxes	431,974	344,397	334,936	227,369	162,237
Provision for income taxes ⁽¹⁾	(155,510)	(123,983)	(131,630)	(90,948)	(64,895)
Net income	276,464	220,414	203,306	136,421	97,342
Dividends on preferred stock	(9,804)	(5,746)	–	–	–
Income available to common stockholders	\$ 266,660	\$ 214,668	\$ 203,306	\$ 136,421	\$ 97,342
Earnings per common share:					
Basic – Class A Common Stock ⁽⁴⁾	\$ 1.25	\$ 1.08	\$ 1.15	\$ 0.81	\$ 0.67
Basic – Class B Common Stock ⁽⁴⁾	\$ 1.14	\$ 0.98	\$ 1.04	\$ 0.73	\$ 0.61
Diluted	\$ 1.19	\$ 1.03	\$ 1.10	\$ 0.78	\$ 0.65
Supplemental data restated for effect of SFAS No. 142:					
Adjusted operating income	\$ 567,896	\$ 487,357	\$ 404,958	\$ 369,780	\$ 290,372
Adjusted net income	\$ 276,464	\$ 220,414	\$ 203,306	\$ 155,367	\$ 111,635
Adjusted income available to common stockholders	\$ 266,660	\$ 214,668	\$ 203,306	\$ 155,367	\$ 111,635
Adjusted earnings per common share:					
Basic – Class A Common Stock ⁽⁴⁾	\$ 1.25	\$ 1.08	\$ 1.15	\$ 0.92	\$ 0.77
Basic – Class B Common Stock ⁽⁴⁾	\$ 1.14	\$ 0.98	\$ 1.04	\$ 0.84	\$ 0.70
Diluted	\$ 1.19	\$ 1.03	\$ 1.10	\$ 0.88	\$ 0.75
Total assets	\$ 7,804,172	\$ 5,558,673	\$ 3,196,330	\$ 3,069,385	\$ 2,512,169
Long-term debt, including current maturities	\$ 3,272,801	\$ 2,046,098	\$ 1,262,895	\$ 1,374,792	\$ 1,361,613

(1) Effective March 1, 2003, the Company completed its adoption of Statement of Financial Accounting Standards No. 145 (“SFAS No. 145”), “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” Accordingly, the adoption of the provisions rescinding Statement of Financial Accounting Standards No. 4 (“SFAS No. 4”), “Reporting Gains and Losses from Extinguishment of Debt,” resulted in a reclassification of the extraordinary loss related to the extinguishment of debt recorded in the fourth quarter of fiscal 2002 (\$1.6 million, net of income taxes), by increasing selling, general and administrative expenses (\$2.6 million) and decreasing the provision for income taxes (\$1.0 million).

(2) For a detailed discussion of acquisition-related integration costs for the year ended February 28, 2005, see Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report under the caption “Fiscal 2005 Compared to Fiscal 2004 – Acquisition-Related Integration Charges.”

(3) For a detailed discussion of restructuring and related charges for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, see Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report under the captions “Fiscal 2005 Compared to Fiscal 2004 – Restructuring and Related Charges” and “Fiscal 2004 Compared to Fiscal 2003 – Restructuring and Related Charges,” respectively.

(4) Effective June 1, 2004, the Company adopted EITF Issue No. 03-6 (“EITF No. 03-6”), “Participating Securities and the Two-Class Method under FASB Statement No. 128.” EITF No. 03-6 clarifies what is meant by a “participating security,” provides guidance on applying the two-class method for computing earnings per share, and required affected companies to retroactively restate earnings per share amounts for all periods presented. Under EITF No. 03-6, the Company’s Class B Convertible Common Stock is considered a participating security requiring the use of the two-class method for the computation of earnings per common share – basic, rather than the if-converted method as previously used. Accordingly, earnings per common share – basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented.

For the years ended February 28, 2005, and February 29, 2004, see Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report and the Consolidated Financial Statements and notes thereto.

During April 2005, the Board of Directors of the Company approved two-for-one stock splits of the Company's Class A Common Stock and Class B Common Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to these common stock splits, as well as the two-for-one split of the Company's two classes of Common Stock in May 2002.

Effective March 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived

intangible assets are no longer amortized but are reviewed at least annually for impairment. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives and are subject to review for impairment. Upon adoption of SFAS No. 142, the Company determined that certain of its intangible assets met the criteria to be considered indefinite lived and, accordingly, ceased their amortization effective March 1, 2002. These intangible assets consisted principally of trademarks. The Company's trademarks relate to well established brands owned by the Company which were previously amortized over 40 years. Intangible assets determined to have a finite life, primarily distribution agreements, continue to be amortized over their estimated useful lives which were not modified as a result of adopting SFAS No. 142. The supplemental data section above presents operating income, income before extraordinary item, net income and earnings per share information for the comparative periods as if the nonamortization provisions of SFAS No. 142 had been applied as of March 1, 2000.

OVERVIEW

The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, imported beer and spirits categories. The Company has the largest wine business in the world and is the largest multi-category supplier of beverage alcohol in the United States; a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom.

The Company reports its operating results in three segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Beers and Spirits (imported beer and distilled spirits) and Corporate Operations and Other. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments. The business segments reflect how the Company's operations are being managed, how operating performance within the Company is being evaluated by senior management and the structure of its internal financial reporting. In addition, the Company excludes acquisition-related integration costs, restructuring and related charges and net unusual costs that affect comparability from its definition of operating income for segment purposes.

The Company's business strategy is to remain focused across the beverage alcohol industry by offering a broad range of products in each of the Company's three major categories: wine, imported beer and spirits. The Company intends to keep its portfolio positioned for superior top-line growth while maximizing the profitability of its brands. In addition, the Company seeks to increase its relative importance to key customers in major markets by increasing its share of their overall purchasing, which is increasingly important in a consolidating industry. The Company's strategy of breadth across categories and geographies is designed to deliver long-term profitable growth. This strategy allows the Company more investment choices, provides flexibility to address changing market conditions and creates stronger routes-to-market.

Marketing, sales and distribution of the Company's products, particularly the Constellation Wines segment's products, are managed on a geographic basis in order to fully leverage leading market positions within each geographic market. Market dynamics and consumer trends vary significantly across the

Company's three core geographic markets – the U.S., Europe (primarily the U.K.) and Australasia (Australia/New Zealand). Within the U.S. market, the Company offers a wide range of beverage alcohol products across the Constellation Wines segment and the Constellation Beers and Spirits segment. In Europe, the Company leverages its position as the largest wine supplier in the U.K. In addition, the Company leverages its U.K. wholesale business as a strategic route-to-market for its imported wine portfolio and as a key supplier of a full range of beverage alcohol products to large national accounts. Within Australasia, where consumer trends favor domestic wine products, the Company leverages its position as one of the largest wine producers in Australia.

The Company remains committed to its long-term financial model of growing sales (both through acquisitions and organically), expanding margins and increasing cash flow to achieve superior earnings per share growth and improve return on invested capital.

The environment for the Company's products is fairly competitive in each of the Company's key geographic markets, due, in part, to industry and retail consolidation. Competition in the U.S. beers and spirits markets is normally intense, with domestic beer producers increasing brand spending in an effort to gain market share.

Additionally, the supply of certain raw materials, particularly grapes, as well as consumer demand, can affect the overall competitive environment. Two years of lighter than expected California grape harvests, combined with a reduction in wine grape acreage in California, has brought the U.S. grape supply more into balance with demand. This has led to an overall firming of the pricing of wine grape varieties from California. In Australia, two years of record grape harvests have contributed to an oversupply of certain red grape varieties, which has led to an overall reduction in grape costs for these varieties and greater pricing competition in the domestic market.

In Fiscal 2005 (as defined below), the Company's net sales increased 15.1% over Fiscal 2004 (as defined below) primarily from increases in branded wine net sales, the inclusion of \$84.5 million of net sales of products acquired in the Robert Mondavi acquisition, increases in U.K. wholesale net sales and imported beer net sales, the inclusion of an additional one month of net sales of products acquired in the Hardy Acquisition (as defined below) and a favorable foreign currency impact. Operating income increased 16.5% over the comparable prior year period primarily due to a reduction in acquisition-related integration costs, restructuring and related charges and net unusual costs (see below under Fiscal 2005 compared to Fiscal 2004 Operating Income discussion), partially offset by increased selling and advertising expenses, as the Company continues to invest behind the imported beer portfolio and certain wine brands to drive growth and broader distribution, and increased Corporate general and administrative

expenses. Lastly, as a result of the above factors and lower interest expense for Fiscal 2005, net income increased 25.4% over the comparable prior year period.

The following discussion and analysis summarizes the significant factors affecting (i) consolidated results of operations of the Company for the year ended February 28, 2005 ("Fiscal 2005"), compared to the year ended February 29, 2004 ("Fiscal 2004"), and Fiscal 2004 compared to the year ended February 28, 2003 ("Fiscal 2003"), and (ii) financial liquidity and capital resources for Fiscal 2005. This discussion and analysis also identifies certain acquisition-related integration costs, restructuring and related charges and net unusual costs expected to affect consolidated results of operations of the Company for the year ending February 28, 2006 ("Fiscal 2006"). This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

COMMON STOCK SPLITS

On April 7, 2005, the Board of Directors of the Company approved two-for-one stock splits of the Company's Class A Common Stock and Class B Common Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to these common stock splits.

ACQUISITIONS IN FISCAL 2005 AND FISCAL 2004 AND EQUITY METHOD INVESTMENT

Acquisition of Robert Mondavi On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation ("Robert Mondavi"), a leading premium wine producer based in Napa, California. In connection with the production of its products, Robert Mondavi owns, operates and has an interest in certain wineries and controls certain vineyards. Robert Mondavi produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. Woodbridge and Robert Mondavi Private Selection are the leading premium and super-premium wine brands, respectively, in the United States.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of Robert Mondavi's sales are generated in the United States. The Company intends to leverage the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company also intends to further expand distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure beginning in the first half of fiscal 2006.

The Company and Robert Mondavi have complementary businesses that share a common growth orientation and operating philosophy. The Robert Mondavi acquisition provides the Company with a greater presence in the fine wine sector within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom, United States and other wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was \$1,030.7 million. Additionally, the Company expects to incur direct acquisition costs of \$11.2 million. The purchase price was financed with borrowings under the Company's 2004 Credit Agreement (as defined below). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of Robert Mondavi, including the factors described above, as well as an estimated benefit from operating cost synergies.

The results of operations of the Robert Mondavi business are reported in the Constellation Wines segment and are included in the consolidated results of operations of the Company from the date of acquisition. The acquisition of Robert Mondavi is significant and the Company expects it to have a material impact on the Company's future results of operations, financial position and cash flows. In particular, the Company expects its future results of operations to be significantly impacted by, among other things, the flow through of anticipated inventory step-up and adverse grape cost, acquisition-related integration costs, restructuring and related charges, and interest expense associated with the 2004 Credit Agreement (as defined below). Adverse grape cost represents the amount of historical inventory cost on Robert Mondavi's balance sheet that exceeds the Company's estimated ongoing grape cost and is primarily due to the purchase of grapes by Robert Mondavi prior to the acquisition date at above-market prices as required under the terms of their existing grape purchase contracts.

In connection with the Robert Mondavi acquisition and Robert Mondavi's previously disclosed intention to sell certain of its winery properties and related assets, and other vineyard properties, the Company has classified certain assets as held for sale as of February 28, 2005. The Company expects to sell these assets in Fiscal 2006 for net proceeds of approximately \$150 million to \$175 million. As of April 30, 2005, the Company has received net proceeds of \$127.9 million. No gain or loss has been or is expected to be recognized upon the sale of these assets.

Acquisition of Hardy On March 27, 2003, the Company acquired control of BRL Hardy Limited, now known as Hardy Wine Company Limited ("Hardy"), and on April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding

capital stock. As a result of the acquisition of Hardy, the Company also acquired the remaining 50% ownership of Pacific Wine Partners LLC ("PWP"), the joint venture the Company established with Hardy in July 2001. The acquisition of Hardy along with the remaining interest in PWP is referred to together as the "Hardy Acquisition." Through this acquisition, the Company acquired one of Australia's largest wine producers with interests in wineries and vineyards in most of Australia's major wine regions as well as New Zealand and the United States. Hardy has a comprehensive portfolio of wine products across all price points with a strong focus on premium wine production. Hardy's wines are distributed worldwide through a network of marketing and sales operations, with the majority of sales generated in Australia, the United Kingdom and the United States.

Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was \$1,137.4 million. Additionally, the Company recorded direct acquisition costs of \$17.4 million. The acquisition date for accounting purposes is March 27, 2003. The Company has recorded a \$1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is included as interest expense in the Consolidated Statement of Income for Fiscal 2004. The cash portion of the purchase price paid to the Hardy shareholders and optionholders (\$1,060.2 million) was financed with \$660.2 million of borrowings under the Company's then existing credit agreement and \$400.0 million of borrowings under the Company's then existing bridge loan agreement. Additionally, the Company issued 6,577,826 shares of the Company's Class A Common Stock, which were valued at \$77.2 million based on the simple average of the closing market price of the Company's Class A Common Stock beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The purchase price was based primarily on a discounted cash flow analysis that contemplated, among other things, the value of a broader geographic distribution in strategic international markets and a presence in the important Australian winemaking regions. The Company and Hardy have complementary businesses that share a common growth orientation and operating philosophy. The Hardy Acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. The purchase price and resulting goodwill were primarily based on the growth opportunities of the brand portfolio of Hardy. In particular, the Company believes there are growth opportunities for Australian wines in the United Kingdom, United States and other wine markets. This acquisition supports the Company's strategy of driving long-term growth and positions the Company to capitalize on the growth opportunities in "new world" wine markets.

The results of operations of Hardy and PWP have been reported in the Company's Constellation Wines segment since

March 27, 2003. Accordingly, the Company's results of operations for Fiscal 2005 include the results of operations of Hardy and PWP for the entire period, whereas the results of operations for Fiscal 2004 only include the results of operations of Hardy and PWP from March 27, 2003, to the end of Fiscal 2004.

Investment in Ruffino On December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. ("Ruffino"), the well-known Italian fine wine company, for a preliminary purchase price of \$86.1 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. As of February 1, 2005, the Constellation Wines segment began distributing Ruffino's products in the United States. The Company accounts for the investment under the equity method; accordingly, the results of operations of Ruffino from December 3, 2004, are included in the equity in earnings of equity method investees line in the Company's Consolidated Statements of Income.

RESULTS OF OPERATIONS

FISCAL 2005 COMPARED TO FISCAL 2004

Net Sales The following table sets forth the net sales (in thousands of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

<i>Fiscal 2005 Compared to Fiscal 2004</i> <i>Net Sales</i>	2005	2004	% Increase/ (Decrease)
Constellation Wines:			
Branded wine	\$1,830,808	\$1,549,750	18.1%
Wholesale and other	1,020,600	846,306	20.6%
Constellation Wines net sales	\$2,851,408	\$2,396,056	19.0%
Constellation Beers and Spirits:			
Imported beers	\$ 922,947	\$ 862,637	7.0%
Spirits	313,283	284,551	10.1%
Constellation Beers and Spirits net sales	\$1,236,230	\$1,147,188	7.8%
Corporate Operations and Other	\$ —	\$ —	N/A
Unusual gain	\$ —	\$ 9,185	(100.0)%
Consolidated Net Sales	\$4,087,638	\$3,552,429	15.1%

Net sales for Fiscal 2005 increased to \$4,087.6 million from \$3,552.4 million for Fiscal 2004, an increase of \$535.2 million, or 15.1%. This increase resulted primarily from an increase in branded wine net sales of \$217.8 million (on a constant currency basis), including \$84.2 million of net sales of branded wines acquired in the Robert Mondavi acquisition and \$45.7 million of net sales of branded wines acquired in the Hardy Acquisition; an increase in U.K. wholesale net sales of \$84.1 million (on a constant currency basis); and an increase in imported beer net sales of \$60.3 million. In addition, net sales benefited from a favorable foreign currency impact of \$155.5 million.

Constellation Wines Net sales for Constellation Wines increased to \$2,851.4 million for Fiscal 2005 from \$2,396.1 million in Fiscal 2004, an increase of \$455.4 million, or 19.0%. Branded wine net sales increased \$281.1 million. This increase resulted

from increased branded wine net sales in the U.S., Europe and Australasia of \$217.8 million (on a constant currency basis), including \$84.2 million of net sales of branded wines acquired in the Robert Mondavi acquisition and an additional one month of net sales of \$45.7 million of branded wines acquired in the Hardy Acquisition, completed in March 2003, and a favorable foreign currency impact of \$63.3 million. The increases in branded wine net sales in the U.S., Europe and Australasia are primarily due to volume growth as the Company continues to benefit from increased distribution and greater consumer demand for premium wines. Wholesale and other net sales increased \$174.3 million primarily due to growth in the U.K. wholesale business of \$84.1 million (on a constant currency basis) and a favorable foreign currency impact of \$92.2 million. The net sales increase in the U.K. wholesale business on a local currency basis is primarily due to the addition of new national accounts in the first quarter of fiscal 2005 and increased sales in existing accounts during Fiscal 2005.

Constellation Beers and Spirits Net sales for Constellation Beers and Spirits increased to \$1,236.2 million for Fiscal 2005 from \$1,147.2 million for Fiscal 2004, an increase of \$89.0 million, or 7.8%. This increase resulted from a \$60.3 million increase in imported beer net sales and an increase in spirits net sales of \$28.7 million. The growth in imported beer sales is primarily due to a price increase on the Company's Mexican beer portfolio, which was introduced in January 2004. The growth in spirits net sales is attributable to increases in both the Company's contract production net sales as well as volume growth in branded net sales.

Gross Profit The Company's gross profit increased to \$1,140.6 million for Fiscal 2005 from \$975.8 million for Fiscal 2004, an increase of \$164.8 million, or 16.9%. The Constellation Wines segment's gross profit increased \$122.6 million primarily due to the additional two months of sales of products acquired in the Robert Mondavi acquisition, volume growth in the U.S. branded wine net sales and a favorable foreign currency impact. The Constellation Beers and Spirits segment's gross profit increased \$30.6 million primarily due to the increase in imported beer net sales and volume growth in the segment's spirits portfolio. In addition, net unusual costs, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, were lower by \$11.6 million in Fiscal 2005 versus Fiscal 2004. This decrease resulted from a \$16.8 million write-down of commodity concentrate inventory in Fiscal 2004 in connection with the Company's decision to exit the commodity concentrate product line in the U.S. (see additional discussion under "Restructuring and Related Charges" below) and reduced flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of \$16.0 million, partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of \$11.5 million, which was recognized in the fourth quarter of fiscal 2004, and the flow through of adverse grape cost associated with the Robert Mondavi

acquisition of \$9.8 million in Fiscal 2005. Gross profit as a percent of net sales increased to 27.9% for Fiscal 2005 from 27.5% for Fiscal 2004 primarily due to the lower net unusual costs.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased to \$555.7 million for Fiscal 2005 from \$457.3 million for Fiscal 2004, an increase of \$98.4 million, or 21.5%. The Constellation Wines segment's selling, general and administrative expenses increased \$64.7 million primarily due to increased selling and advertising expenses as the Company continues to invest behind specific wine brands to drive broader distribution and additional selling, general and administrative expenses from the addition of the Robert Mondavi business. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased \$7.1 million primarily due to increased imported beer and spirits selling expenses to support the growth across this segment's businesses. The Corporate Operations and Other segment's selling, general and administrative expenses increased \$13.7 million primarily due to increased general and administrative expenses to support the Company's growth and costs associated with higher professional services fees, including costs incurred in connection with compliance activities associated with the Sarbanes-Oxley Act of 2002. Lastly, there was an increase of \$12.9 million of net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. This increase includes \$31.7 million of financing costs recorded in Fiscal 2005 related to (i) the Company's redemption of its Senior Subordinated Notes (as defined below) and (ii) the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition as compared to \$11.6 million of financing costs recorded in Fiscal 2004 in connection with the Hardy Acquisition. Partially offsetting the \$20.1 million increase in financing costs were net gains recorded in Fiscal 2005 on the sales of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. Selling, general and administrative expenses as a percent of net sales increased to 13.6% for Fiscal 2005 as compared to 12.9% for Fiscal 2004 primarily due to the growth in the Corporate Operations and Other segment's general and administrative expenses and the increased net unusual costs described above.

Restructuring and Related Charges The Company recorded \$7.6 million of restructuring and related charges for Fiscal 2005 associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations as previously announced in Fiscal 2004, (ii) the Company's decision in Fiscal 2004 to exit the commodity concentrate product line in the U.S. (collectively, the "Fiscal 2004 Plan"), and (iii) the Company's decision to restructure and integrate the operations of Robert Mondavi (the "Robert Mondavi Plan"). The Company is in the process of refining the Robert Mondavi Plan which will be finalized during Fiscal 2006. Restructuring and

related charges included \$3.8 million of employee termination benefit costs (net of reversal of prior accruals of \$0.2 million), \$1.5 million of contract termination costs, \$1.0 million of facility consolidation and relocation costs, and other related charges of \$1.3 million. The Company recorded \$31.2 million of restructuring and related charges for Fiscal 2004 associated with the Fiscal 2004 Plan. In total, the Company recorded \$48.0 million of costs for Fiscal 2004 allocated between cost of product sold and restructuring and related charges associated with the Fiscal 2004 Plan.

For Fiscal 2006, the Company expects to incur total restructuring and related charges of \$4.9 million associated with the restructuring plans of the Constellation Wines segment. These charges are expected to consist of \$1.7 million related to the further realignment of business operations in the Constellation Wines segment and \$3.2 million related to the Robert Mondavi Plan.

Acquisition-Related Integration Costs The Company recorded \$9.4 million of acquisition-related integration costs for Fiscal 2005 associated with the Robert Mondavi Plan. Acquisition-related integration costs included \$4.9 million of employee related costs and \$4.5 million of facilities and other one-time costs. The Company expects to incur \$14 million of acquisition-related integration costs for Fiscal 2006. These charges are expected to consist of \$5 million of employee related costs and \$9 million of facilities and other one-time costs.

Operating Income The following table sets forth the operating income (loss) (in thousands of dollars) by operating segment of the Company for Fiscal 2005 and Fiscal 2004.

<i>Fiscal 2005 Compared to Fiscal 2004</i>			
<i>Operating Income (Loss)</i>	<i>2005</i>	<i>2004</i>	<i>% Increase/ (Decrease)</i>
Constellation Wines	\$406,562	\$348,132	16.8%
Constellation Beers and Spirits	276,109	252,533	9.3%
Corporate Operations and Other	(55,980)	(41,717)	34.2%
Total Reportable Segments	626,691	558,948	12.1%
Acquisition-Related Integration Costs, Restructuring and Related Charges and Net Unusual Costs	(58,795)	(71,591)	(17.9)%
Consolidated Operating Income	\$567,896	\$487,357	16.5%

As a result of the factors discussed above, consolidated operating income increased to \$567.9 million for Fiscal 2005 from \$487.4 million for Fiscal 2004, an increase of \$80.5 million, or 16.5%. Acquisition-related integration costs, restructuring and related charges and net unusual costs of \$58.8 million for Fiscal 2005 consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. These costs represent financing costs associated with the redemption of the Company's Senior Subordinated Notes and the Company's new senior credit facility entered into in connection with the Robert Mondavi acquisition of

\$31.7 million, adverse grape cost and acquisition-related integration costs associated with the Company's acquisition of Robert Mondavi of \$9.8 million and \$9.4 million, respectively, restructuring and related charges of \$7.6 million in the wine segment associated with the Company's realignment of its business operations and the Robert Mondavi acquisition, and the flow through of inventory step-up associated with the Hardy and Robert Mondavi acquisitions of \$6.4 million, partially offset by a net gain on the sale of non-strategic assets of \$3.1 million and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of \$3.0 million. Acquisition-related integration costs, restructuring and related charges and net unusual costs of \$71.6 million for Fiscal 2004 represent the flow through of inventory step-up and the amortization of deferred financing costs associated with the Hardy Acquisition of \$22.5 million and \$11.6 million, respectively, and costs associated with exiting the commodity concentrate product line and the Company's realignment of its business operations in the wine segment, including the write-down of commodity concentrate inventory of \$16.8 million and restructuring and related charges of \$31.1 million, partially offset by the relief from certain excise taxes, duty and other costs incurred in prior years of \$10.4 million.

Interest Expense, Net Interest expense, net of interest income of \$2.3 million and \$3.6 million for Fiscal 2005 and Fiscal 2004, respectively, decreased to \$137.7 million for Fiscal 2005 from \$144.7 million for Fiscal 2004, a decrease of \$7.0 million, or (4.8%). The decrease resulted from lower average borrowing rates in Fiscal 2005 as well as lower average borrowings. The reduction in average borrowing rates was attributed in part to the replacement of \$200.0 million of higher fixed rate subordinated note debt with lower variable rate revolver debt. The reduction in average borrowings resulted from the use of proceeds from the Company's equity offerings in July 2003 to pay down debt incurred to partially finance the Hardy Acquisition combined with on-going principal payments on long-term debt, partially offset by additional borrowings in the fourth quarter of fiscal 2005 to finance the Robert Mondavi acquisition.

Provision for Income Taxes The Company's effective tax rate remained the same at 36.0% for Fiscal 2005 and Fiscal 2004.

Net Income As a result of the above factors, net income increased to \$276.5 million for Fiscal 2005 from \$220.4 million for Fiscal 2004, an increase of \$56.1 million, or 25.4%.

FISCAL 2004 COMPARED TO FISCAL 2003

Net Sales The following table sets forth the net sales (in thousands of dollars) by operating segment of the Company for Fiscal 2004 and Fiscal 2003.

<i>Fiscal 2004 Compared to Fiscal 2003</i>			
<i>Net Sales</i>	<i>2004</i>	<i>2003</i>	<i>% Increase</i>
Constellation Wines:			
Branded wines	\$1,549,750	\$ 983,505	57.6%
Wholesale and other	846,306	689,794	22.7%
Constellation Wines net sales	\$2,396,056	\$1,673,299	43.2%
Constellation Beers and Spirits:			
Imported beers	\$ 862,637	\$ 776,006	11.2%
Spirits	284,551	282,307	0.8%
Constellation Beers and Spirits net sales	\$1,147,188	\$1,058,313	8.4%
Corporate Operations and Other	\$ -	\$ -	N/A
Unusual gain	\$ 9,185	\$ -	N/A
Consolidated Net Sales	\$3,552,429	\$2,731,612	30.0%

Net sales for Fiscal 2004 increased to \$3,552.4 million from \$2,731.6 million for Fiscal 2003, an increase of \$820.8 million, or 30.0%. This increase resulted primarily from the inclusion of \$571.4 million of net sales of products acquired in the Hardy Acquisition as well as increases in imported beer sales of \$86.6 million and U.K. wholesale sales of \$61.1 million (on a constant currency basis). In addition, net sales benefited from a favorable foreign currency impact of \$74.6 million.

Constellation Wines Net sales for the Constellation Wines segment for Fiscal 2004 increased to \$2,396.1 million from \$1,673.3 million for Fiscal 2003, an increase of \$722.8 million, or 43.2%. Branded wine net sales increased \$566.2 million, primarily due to the addition of \$548.4 million of net sales of branded wine acquired in the Hardy Acquisition. Wholesale and other net sales increased \$156.5 million primarily due to a favorable foreign currency impact of \$63.1 million, growth in the U.K. wholesale business of \$61.1 million (on a constant currency basis), and the addition of \$23.0 million of net sales of bulk wine acquired in the Hardy Acquisition. The net sales increase in the U.K. wholesale business on a local currency basis is primarily due to the addition of new accounts and increased average delivery sizes as the Company's national accounts business continues to grow.

Constellation Beers and Spirits Net sales for the Constellation Beers and Spirits segment for Fiscal 2004 increased to \$1,147.2 million from \$1,058.3 million for Fiscal 2003, an increase of \$88.9 million, or 8.4%. This increase resulted primarily from volume gains on the Company's imported beer portfolio, which increased \$86.6 million. Spirits net sales remained relatively flat as increased branded spirits sales were offset by lower bulk whisky and contract production sales.

Gross Profit The Company's gross profit increased to \$975.8 million for Fiscal 2004 from \$760.7 million for Fiscal 2003, an increase of \$215.1 million, or 28.3%. The

Constellation Wines segment's gross profit increased \$200.4 million primarily due to gross profit on the sales of branded wine acquired in the Hardy Acquisition. The Constellation Beers and Spirits segment's gross profit increased \$42.5 million primarily due to the volume growth in the segment's imported beer portfolio. These increases were partially offset by \$27.8 million of net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. These net costs represent the flow through of inventory step-up associated with the Hardy Acquisition of \$22.5 million and the write-down of concentrate inventory recorded in connection with the Company's decision to exit the commodity concentrate product line of \$16.8 million (see additional discussion under "Restructuring and Related Charges" below), partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of \$11.5 million, which was recognized in the fourth quarter of fiscal 2004. Gross profit as a percent of net sales decreased slightly to 27.5% for Fiscal 2004 from 27.8% for Fiscal 2003 as an increase in gross profit margin from sales of higher margin wine brands acquired in the Hardy Acquisition was more than offset by the net unusual costs discussed above and a decrease in gross profit margin on the Constellation Wines' U.K. wholesale business.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased to \$457.3 million for Fiscal 2004 from \$351.0 million for Fiscal 2003, an increase of \$106.3 million, or 30.3%. The Constellation Wines segment's selling, general and administrative expenses increased \$76.8 million primarily due to \$67.7 million of selling, general and administrative expenses from the addition of the Hardy and PWP businesses. The Constellation Beers and Spirits segment's selling, general and administrative expenses increased \$7.9 million due to increased imported beer and spirits advertising and selling expenses to support the growth across this segment's businesses, partially offset by foreign currency gains. The Corporate Operations and Other segment's general and administrative expenses increased \$8.9 million primarily due to additional deferred financing costs associated with the Company's new bank credit facility and increased general and administrative expenses to support the Company's growth. In addition, there was a \$12.7 million increase in selling, general and administrative expenses related to net unusual costs which consist of certain items that are excluded by management in their evaluation of the results of each operating segment. These costs consist primarily of the additional amortized deferred financing costs associated with the bridge financing in connection with the Hardy Acquisition of \$11.6 million. Selling, general and administrative expenses as a percent of net sales increased slightly to 12.9% for Fiscal 2004 as compared to 12.8% for Fiscal 2003 due primarily to the net unusual costs and the increased general and administrative expenses within the Corporate Operations and Other segment as discussed above.

Restructuring and Related Charges The Company recorded \$31.2 million of restructuring and related charges for Fiscal 2004 associated with the restructuring plan of the Constellation Wines segment. Restructuring and related charges resulted from (i) \$10.0 million related to the realignment of business operations and (ii) \$21.2 million related to exiting the commodity concentrate product line in the U.S. and selling its winery located in Escalon, California. In total, the Company recorded \$38.0 million of costs associated with exiting the commodity concentrate product line and selling its Escalon facility allocated between cost of product sold (\$16.8 million) and restructuring and related charges (\$21.2 million).

The Company recorded \$4.8 million of restructuring and related charges for Fiscal 2003 associated with an asset impairment charge in connection with two of Constellation Wines segment's production facilities.

Operating Income The following table sets forth the operating income (loss) (in thousands of dollars) by operating segment of the Company for Fiscal 2004 and Fiscal 2003.

<i>Fiscal 2004 Compared to Fiscal 2003</i>			
<i>Operating Income (Loss)</i>	<i>2004</i>	<i>2003</i>	<i>% Increase</i>
Constellation Wines	\$348,132	\$224,556	55.0%
Constellation Beers and Spirits	252,533	217,963	15.9%
Corporate Operations and Other	(41,717)	(32,797)	27.2%
Total Reportable Segments	558,948	409,722	36.4%
Acquisition-Related Integration Costs Restructuring and Related Charges and Net Unusual Costs	(71,591)	(4,764)	1402.7%
Consolidated Operating Income	\$487,357	\$404,958	20.3%

As a result of the factors discussed above, consolidated operating income increased to \$487.4 million for Fiscal 2004 from \$405.0 million for Fiscal 2003, an increase of \$82.4 million, or 20.3%. Acquisition-related integration costs, restructuring and related charges and net unusual costs of \$71.6 million and \$4.8 million for Fiscal 2004 and Fiscal 2003, respectively, consist of certain costs that are excluded by management in their evaluation of the results of each operating segment. Fiscal 2004 costs represent the flow through of inventory step-up and the amortization of deferred financing costs associated with the Hardy Acquisition of \$22.5 million and \$11.6 million, respectively, and costs associated with exiting the commodity concentrate product line and the Company's realignment of its business operations in the wine segment, including the write-down of concentrate inventory of \$16.8 million and restructuring and related charges of \$31.2 million, partially offset by the relief from certain excise taxes, duty and other costs incurred in prior years of \$10.4 million. Fiscal 2003 costs represent restructuring and related charges associated with the Company's realignment of its business operations in the wine segment.

Gain on Change in Fair Value of Derivative Instruments The Company entered into a foreign currency collar contract in February 2003 in connection with the Hardy Acquisition to lock in a range for the cost of the acquisition in U.S. dollars. As of February 28, 2003, this derivative instrument had a fair value of \$23.1 million. Under SEAS No. 133, a transaction that involves a business combination is not eligible for hedge accounting treatment. As such, the derivative was recorded on the balance sheet at its fair value with the change in the fair value recognized separately on the Company's Consolidated Statements of Income. During the first quarter of fiscal 2004, the gain on change in fair value of the derivative instrument of \$1.2 million was recognized separately on the Company's Consolidated Statement of Income.

Equity in Earnings of Equity Method Investees The Company's equity in earnings of equity method investees decreased to \$0.5 million in Fiscal 2004 from \$12.2 million in Fiscal 2003 due to the acquisition of the remaining 50% ownership of PWP in March 2003 resulting in consolidation of PWP's results of operations since the date of acquisition.

Interest Expense, Net Interest expense, net of interest income of \$3.6 million and \$0.8 million for Fiscal 2004 and Fiscal 2003, respectively, increased to \$144.7 million for Fiscal 2004 from \$105.4 million for Fiscal 2003, an increase of \$39.3 million, or 37.3%. The increase resulted from higher average borrowings due to the financing of the Hardy Acquisition, partially offset by a lower average borrowing rate, and \$1.7 million of imputed interest expense related to the Hardy Acquisition.

Provision for Income Taxes The Company's effective tax rate for Fiscal 2004 declined to 36.0% from 39.3% for Fiscal 2003 as a result of the Hardy Acquisition, which significantly increased the allocation of income to jurisdictions with lower income tax rates.

Net Income As a result of the above factors, net income increased to \$220.4 million for Fiscal 2004 from \$203.3 million for Fiscal 2003, an increase of \$17.1 million, or 8.4%.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The Company's principal use of cash in its operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States, the annual grape crush normally begins in August and runs through October. In Australia, the annual grape crush normally begins in February and runs through May. The Company generally begins taking delivery of grapes at the beginning of the crush season with payments for such grapes beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two

months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements. The Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, preferred stock dividend payment requirements, and anticipated capital expenditure requirements for both its short-term and long-term capital needs. The Company also has in place an effective shelf registration statement covering the potential sale of up to \$750.0 million of debt securities, preferred stock, Class A Common Stock or any combination thereof. As of May 16, 2005, the entire \$750.0 million of capacity was available under the shelf registration statement.

FISCAL 2005 CASH FLOWS

Operating Activities Net cash provided by operating activities for Fiscal 2005 was \$320.7 million, which resulted from \$276.5 million of net income, plus \$176.0 million of net non-cash items charged to the Consolidated Statement of Income, less \$131.7 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment, deferred tax provision and the non-cash portion of loss on extinguishment of debt. The net change in operating assets and liabilities resulted primarily from increases in accounts receivable and inventories. The increases in accounts receivable and inventories are primarily as a result of the Company's growth in Fiscal 2005.

Investing Activities Net cash used in investing activities for Fiscal 2005 was \$1,222.9 million, which resulted primarily from net cash paid of \$1,052.5 million for purchases of businesses and \$119.7 million of capital expenditures.

Financing Activities Net cash provided by financing activities for Fiscal 2005 was \$884.2 million resulting primarily from proceeds from issuance of long-term debt of \$2,400.0 million, partially offset by principal payments of long-term debt of \$1,488.7 million.

FISCAL 2004 CASH FLOWS

Operating Activities Net cash provided by operating activities for Fiscal 2004 was \$340.3 million, which resulted from \$220.4 million of net income, plus \$137.9 million of net non-cash items charged to the Consolidated Statement of Income, less \$18.0 million representing the net change in the Company's operating assets and liabilities. The net non-cash items consisted primarily of depreciation of property, plant and equipment, deferred tax provision and amortization of intangible and other assets. The net change in operating assets and liabilities resulted primarily from an increase in accounts receivable and a decrease

in accounts payable, partially offset by a decrease in inventories and an increase in accrued advertising and promotion.

Investing Activities Net cash used in investing activities for Fiscal 2004 was \$1,158.5 million, which resulted primarily from net cash paid of \$1,069.5 million for the purchases of businesses and \$105.1 million of capital expenditures.

Financing Activities Net cash provided by financing activities for Fiscal 2004 was \$745.2 million resulting primarily from proceeds of \$1,600.0 million from issuance of long-term debt, including \$1,060.2 million of long-term debt incurred to acquire Hardy, plus net proceeds from the 2003 Equity Offerings (as defined below) of \$426.1 million. This amount was partially offset by principal payments of long-term debt of \$1,282.3 million.

During June 1998, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of its Class A Common Stock and Class B Common Stock. The repurchase of shares of common stock will be accomplished, from time to time, in management's discretion and depending upon market conditions, through open market or privately negotiated transactions. The Company may finance such repurchases through cash generated from operations or through the senior credit facility. The repurchased shares will become treasury shares. As of May 16, 2005, the Company had purchased a total of 8,150,688 shares of Class A Common Stock at an aggregate cost of \$44.9 million, or at an average cost of \$5.51 per share. Of this total amount, no shares were repurchased during Fiscal 2005, Fiscal 2004 or Fiscal 2003.

DEBT

Total debt outstanding as of February 28, 2005, amounted to \$3,289.3 million, an increase of \$1,241.4 million from February 29, 2004. The ratio of total debt to total capitalization increased to 54.2% as of February 28, 2005, from 46.3% as of February 29, 2004, primarily as a result of the additional borrowings in the fourth quarter of fiscal 2005 to finance the acquisition of Robert Mondavi.

Senior Credit Facility

2004 Credit Agreement In connection with the acquisition of Robert Mondavi, on December 22, 2004, the Company and its U.S. subsidiaries (excluding certain inactive subsidiaries), together with certain of its subsidiaries organized in foreign jurisdictions, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the "2004 Credit Agreement"). The 2004 Credit Agreement provides for aggregate credit facilities of \$2.9 billion, consisting of a \$600.0 million tranche A term loan facility due in November 2010, a \$1.8 billion tranche B term loan facility due in November 2011, and a \$500.0 million revolving credit facility (including a sub-facility for letters of credit of up to \$60.0 million) which terminates in December 2010. Proceeds of the 2004 Credit Agreement were used to pay off the Company's

obligations under its prior senior credit facility, to fund the cash consideration payable in connection with its acquisition of Robert Mondavi, and to pay certain obligations of Robert Mondavi, including indebtedness outstanding under its bank facility and unsecured notes of \$355.4 million. The Company uses the remaining availability under the 2004 Credit Agreement to fund its working capital needs on an as needed basis. In connection with entering into the 2004 Credit Agreement, the Company recorded a charge of \$21.4 million in selling, general and administrative expenses for the write-off of bank fees related to the repayment of the Company's prior senior credit facility in the fourth quarter of fiscal 2005.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on December 22, 2004. As of February 28, 2005, the required principal repayments of the tranche A term loan and the tranche B term loan are as follows:

	<i>Tranche A Term Loan</i>	<i>Tranche B Term Loan</i>	<i>Total</i>
<i>(In thousands)</i>			
2006	\$ 60,000	\$ –	\$ 60,000
2007	67,500	17,168	84,668
2008	97,500	17,168	114,668
2009	120,000	17,168	137,168
2010	127,500	17,168	144,668
Thereafter	112,500	1,626,828	1,739,328
	<u>\$585,000</u>	<u>\$1,695,500</u>	<u>\$2,280,500</u>

The rate of interest payable, at the Company's option, is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is adjustable based upon the Company's debt ratio (as defined in the 2004 Credit Agreement) and, with respect to LIBOR borrowings, ranges between 1.00% and 1.75%. As of February 28, 2005, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.50%, while the LIBOR margin on the tranche B term loan facility is 1.75%.

The Company's obligations are guaranteed by its U.S. subsidiaries (excluding certain inactive subsidiaries) and by certain of its foreign subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in most of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to customary lending covenants including those restricting additional liens, the incurrence of additional indebtedness (including guarantees of indebtedness), the sale of assets, the payment of dividends, transactions with affiliates, the disposition and acquisition of property and the making of certain investments, in each case subject to numerous baskets, exceptions and thresholds. The financial covenants are limited to maximum total debt and senior debt coverage ratios and minimum fixed charges and interest coverage ratios. As of February 28, 2005,

the Company is in compliance with all of its covenants under its 2004 Credit Agreement.

As of February 28, 2005, under the 2004 Credit Agreement, the Company had outstanding tranche A term loans of \$585.0 million bearing a weighted average interest rate of 4.3%, tranche B term loans of \$1,695.5 billion bearing a weighted average interest rate of 4.4%, revolving loans of \$14.0 million bearing a weighted average interest rate of 3.8%, undrawn revolving letters of credit of \$36.7 million, and \$449.3 million in revolving loans available to be drawn.

As of February 28, 2005, the Company had outstanding five year interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five-year term. Subsequent to February 28, 2005, the Company monetized the value of the interest rate swaps by replacing them with new swaps which extended the hedged period through fiscal 2010. The Company received \$30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from Accumulated Other Comprehensive Income ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statement of Income. The effective interest rate remains the same under the new swap structure at 4.1%.

Foreign Subsidiary Facilities The Company has additional credit arrangements available totaling \$176.0 million as of February 28, 2005. These arrangements support the financing needs of certain of the Company's foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2005, amounts outstanding under the subsidiary credit arrangements were \$34.0 million.

Senior Notes As of February 28, 2005, the Company had outstanding \$200.0 million aggregate principal amount of 8½% Senior Notes due August 2006 (the "Senior Notes"). The Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

As of February 28, 2005, the Company had outstanding £1.0 million (\$1.9 million) aggregate principal amount of 8½% Series B Senior Notes due November 2009 (the "Sterling Series B Senior Notes"). In addition, as of February 28, 2005, the Company had outstanding £154.0 million (\$295.4 million, net of \$0.5 million unamortized discount) aggregate principal amount of 8½% Series C Senior Notes due November 2009 (the "Sterling Series C Senior Notes"). The Sterling Series B Senior Notes and Sterling Series C Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Also, as of February 28, 2005, the Company had outstanding \$200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the “February 2001 Senior Notes”). The February 2001 Senior Notes are currently redeemable, in whole or in part, at the option of the Company.

Senior Subordinated Notes On March 4, 1999, the Company issued \$200.0 million aggregate principal amount of 8½% Senior Subordinated Notes due March 2009 (“Senior Subordinated Notes”). The Senior Subordinated Notes were redeemable at the option of the Company, in whole or in part, at any time on or after March 1, 2004. On February 10, 2004, the Company issued a Notice of Redemption for its Senior Subordinated Notes. On March 11, 2004, the Senior Subordinated Notes were redeemed with proceeds from the

revolving credit facility under the Company’s then existing senior credit facility at 104.25% of par plus accrued interest. During Fiscal 2005, in connection with this redemption, the Company recorded a charge of \$10.3 million in selling, general and administrative expenses for the call premium and the remaining unamortized financing fees associated with the original issuance of the Senior Subordinated Notes.

As of February 28, 2005, the Company had outstanding \$250.0 million aggregate principal amount of 8½% Senior Subordinated Notes due January 2012 (the “January 2002 Senior Subordinated Notes”). The January 2002 Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2007.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth information about the Company’s long-term contractual obligations outstanding at February 28, 2005. It brings together data for easy reference from the consolidated balance sheet and from individual notes to the Company’s consolidated financial statements. See Notes 9, 11, 12, 13 and 14 to the Company’s consolidated financial statements located in this Annual Report for detailed discussion of items noted in the following table.

Payments Due by Period

	Total	Less than 1 year	1–3 years	3–5 years	After 5 years
<i>(In thousands)</i>					
Contractual obligations					
Notes payable to banks	\$ 16,475	\$ 16,475	\$ –	\$ –	\$ –
Long-term debt (excluding unamortized discount)	3,273,258	68,094	619,746	594,249	1,991,169
Operating leases	408,221	52,952	91,094	63,060	201,115
Other long term liabilities	358,316	88,410	111,926	59,367	98,613
Unconditional purchase obligations ⁽¹⁾	2,755,098	470,788	731,604	501,588	1,051,118
Total contractual obligations	\$6,811,368	\$696,719	\$1,554,370	\$1,218,264	\$3,342,015

⁽¹⁾ Total unconditional purchase obligations consist of \$27.2 million for contracts to purchase various spirits over the next eight fiscal years, \$2,499.7 million for contracts to purchase grapes over the next ten fiscal years, \$132.1 million for contracts to purchase bulk wine over the next seven fiscal years, \$80.0 million for processing contracts over the next ten fiscal years, and \$16.0 million for sweetener purchase contracts over the next two fiscal years. See Note 14 to the Company’s consolidated financial statements located in this Annual Report for a detailed discussion of these items.

EQUITY OFFERINGS

During July 2003, the Company completed a public offering of 19,600,000 shares of its Class A Common Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$261.2 million. In addition, the Company also completed a public offering of 170,500 shares of its 5.75% Series A Mandatory Convertible Preferred Stock (“Preferred Stock”) resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$164.9 million. The Class A Common Stock offering and the Preferred Stock offering are referred to together as the “2003 Equity Offerings.” The majority of the net proceeds from the 2003 Equity Offerings were used to repay the Company’s then existing bridge loans that were incurred to partially finance the Hardy Acquisition. The remaining proceeds were used to repay term loan borrowings under the Company’s then existing senior credit facility.

CAPITAL EXPENDITURES

During Fiscal 2005, the Company incurred \$119.7 million for capital expenditures. The Company plans to spend approximately \$140 million for capital expenditures in Fiscal 2006. In addition, the Company continues to consider the purchase, lease and development of vineyards and may incur additional expenditures for vineyards if opportunities become available. Management reviews the capital expenditure program periodically and modifies it as required to meet current business needs.

EFFECTS OF INFLATION AND CHANGING PRICES

The Company’s results of operations and financial condition have not been significantly affected by inflation and changing prices. The Company has been able, subject to normal competitive conditions, to pass along rising costs through increased selling prices. There can be no assurances, however, that the Company will continue to be able to pass along rising costs through increased selling prices.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are more fully described in Note 1 to the Company's consolidated financial statements located in this Annual Report. However, certain of the Company's accounting policies are particularly important to the portrayal of the Company's financial position and results of operations and require the application of significant judgment by the Company's management; as a result they are subject to an inherent degree of uncertainty. In applying those policies, the Company's management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on the Company's historical experience, the Company's observance of trends in the industry, information provided by the Company's customers and information available from other outside sources, as appropriate. On an ongoing basis, the Company reviews its estimates to ensure that they appropriately reflect changes in the Company's business. The Company's critical accounting policies include:

- **ACCOUNTING FOR PROMOTIONAL ACTIVITIES.** Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates. Certain customer incentive programs require management to estimate the cost of those programs. The accrued liability for these programs is determined through analysis of programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends, and experience with payment patterns associated with similar programs that had been previously offered. If assumptions included in the Company's estimates were to change or market conditions were to change, then material incremental reductions to revenue could be required, which would have a material adverse impact on the Company's financial statements. Promotional costs were \$390.9 million, \$336.4 million and \$231.6 million for Fiscal 2005, Fiscal 2004 and Fiscal 2003, respectively.
- **INVENTORY VALUATION.** Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of goods sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on the Company's financial statements.

- **ACCOUNTING FOR BUSINESS COMBINATIONS.** The acquisition of businesses is an important element of the Company's strategy. Under the purchase method, the Company is required to record the net assets acquired at the estimated fair value at the date of acquisition. The determination of the fair value of the assets acquired and liabilities assumed requires the Company to make estimates and assumptions that affect the Company's financial statements. For example, the Company's acquisitions typically result in goodwill and other intangible assets; the value and estimated life of those assets may affect the amount of future period amortization expense for intangible assets with finite lives as well as possible impairment charges that may be incurred.
- **IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES.** Intangible assets with indefinite lives consist primarily of trademarks as well as agency relationships. The Company is required to analyze its goodwill and other intangible assets with indefinite lives for impairment on an annual basis as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends. The impairment testing requires management to estimate the fair value of the assets or reporting unit and record an impairment loss for the excess of the carrying value over the fair value. The estimate of fair value of the assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting unit is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and other intangible assets and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for these assets. The recording of any resulting impairment loss could have a material adverse impact on the Company's financial statements.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs – an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43 ("ARB No. 43"), "Restatement and Revision of Accounting Research Bulletins," Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151

requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is required to adopt SFAS No. 151 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 151 on its consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)", "Share-Based Payment." SFAS No. 123(R) replaces Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. In addition, SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a grant date fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) also amends Statement of Financial Accounting Standards No. 95 ("SFAS No. 95"), "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) applies to all awards granted, modified, repurchased, or cancelled after the required effective date (see below). In addition, SFAS No. 123(R) requires entities that used the fair-value-based method for either recognition or disclosure under SFAS No. 123 to apply SFAS No. 123(R) using a modified version of prospective application. This application requires compensation cost to be recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered based on the grant date fair value of those awards as calculated under SFAS No. 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123. In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), "Share Based Payment," to express the views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements for public companies. The Company is required to adopt SFAS No. 123(R) for interim periods beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 123(R) on

its consolidated financial statements and will take into consideration the additional guidance provided by SAB No. 107 in connection with the Company's adoption of SFAS No. 123(R).

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board Opinion No. 29 ("APB No. 29"), "Accounting for Nonmonetary Transactions," to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replace it with a general exception from fair value measurement for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company is required to adopt SFAS No. 153 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 153 on its consolidated financial statements.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FSP FAS 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. Although FSP FAS 109-2 is effective immediately, the Company is currently assessing the impact of guidance issued by the Treasury Department and the Internal Revenue Service on May 10, 2005, as well as the relevance of additional guidance expected to be issued. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional guidance.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." FIN No. 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations." A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 is effective for the Company no later than the end of the year ending February 28, 2006. The Company is currently assessing the financial impact of FIN No. 47 on its consolidated financial statements.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical facts included in this Annual Report, including the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the Company’s business strategy, future financial position, prospects, plans and objectives of management, as well as information concerning expected actions of third parties are forward-looking statements. When used in this Annual Report, the words “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Annual Report. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations, important factors that could cause actual results to differ materially from those set forth in, or implied, by the Company’s forward-looking statements contained in this Annual Report are as follows:

- The Company’s indebtedness could have a material adverse effect on its financial health.
- The Company’s acquisition and joint venture strategies may not be successful.
- Competition could have a material adverse effect on the Company’s business.
- An increase in excise taxes or government regulations could have a material adverse effect on the Company’s business.
- The Company relies on the performance of wholesale distributors, major retailers and chains for the success of its business.
- The Company’s business could be adversely affected by a decline in the consumption of products the Company sells.
- The Company generally purchases raw materials under short-term supply contracts, and the Company is subject to substantial price fluctuations for grapes and grape-related materials, and the Company has a limited group of suppliers of glass bottles.
- The Company’s operations subject it to risks relating to currency rate fluctuations, interest rate fluctuations and geopolitical uncertainty which could have a material adverse effect on the Company’s business.
- The Company has a material amount of goodwill, and if the Company is required to write-down goodwill, it would reduce the Company’s net income, which in turn could have a material adverse effect on the Company’s results of operations.
- The termination or non-renewal of the Company’s imported beer distribution agreements could have a material adverse effect on the Company’s business.
- Class action or other litigation relating to alcohol abuse or the misuse of alcohol could adversely affect the Company’s business.
- The Company depends upon its trademarks and proprietary rights, and any failure to protect its intellectual property rights or any claims that the Company is infringing upon the rights of others may adversely affect the Company’s competitive position.
- Contamination or other circumstances could harm the integrity or customer support for the Company’s brands and adversely affect the sales of those products.

For additional information about risks and uncertainties that could adversely affect the Company’s forward-looking statements, please refer to the Company’s filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended February 28, 2005.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, as a result of its global operating and financing activities, is exposed to market risk associated with changes in foreign currency exchange rates and interest rates. To manage the volatility relating to these risks, the Company periodically purchases and/or sells derivative instruments including foreign currency exchange contracts and interest rate swap agreements. The Company uses derivative instruments solely to reduce the financial impact of these risks and does not use derivative instruments for trading purposes.

Foreign currency forward contracts and foreign currency options are used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales both to third parties as well as intercompany sales, and intercompany principal and interest payments. As of February 28, 2005, the Company had exposures to foreign currency risk primarily related to the Australian dollar, euro, New Zealand dollar, British pound sterling, Canadian dollar and Mexican peso.

As of February 28, 2005, and February 29, 2004, the Company had outstanding foreign exchange derivative instruments with a notional value of \$601.6 million and \$735.8 million, respectively. Approximately 63% of the Company's total exposures were hedged as of February 28, 2005. Using a sensitivity analysis based on estimated fair value of open contracts using forward rates, if the contract base currency had been 10% weaker as of February 28, 2005, and February 29, 2004, the fair value of open foreign exchange contracts would have been decreased by \$65.2 million and \$72.4 million, respectively. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments.

The fair value of fixed rate debt is subject to interest rate risk, credit risk and foreign currency risk. The estimated fair value of the Company's total fixed rate debt, including current maturities, was \$1,088.1 million and \$1,321.8 million as of February 28, 2005, and February 29, 2004, respectively. A hypothetical 1% increase from prevailing interest rates as of February 28, 2005, and February 29, 2004, would have resulted in a decrease in fair value of fixed interest rate long-term debt by \$37.0 million and \$52.9 million, respectively.

As of February 28, 2005, the Company had outstanding five-year interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five-year term. A hypothetical 1% increase from prevailing interest rates as of February 28, 2005 would have increased the fair value of the interest rate swaps by \$53.1 million. As of February 29, 2004, the Company had no interest rate swap agreements outstanding.

In addition to the \$1,088.1 million and \$1,321.8 million estimated fair value of fixed rate debt outstanding as of February 28, 2005, and February 29, 2004, respectively, the Company also had variable rate debt outstanding (primarily LIBOR based) as of February 28, 2005, and February 29, 2004, of \$2,302.7 million and \$861.8 million, respectively. Using a sensitivity analysis based on a hypothetical 1% increase in prevailing interest rates over a 12-month period, the approximate increase in cash required for interest as of February 28, 2005 and February 29, 2004 is \$23.0 million and \$7.4 million, respectively.

	February 28, 2005	February 29, 2004
ASSETS		
Current Assets:		
Cash and cash investments	\$ 17,635	\$ 37,136
Accounts receivable, net	849,642	635,910
Inventories	1,607,735	1,261,378
Prepaid expenses and other	259,023	137,047
Total current assets	2,734,035	2,071,471
Property, Plant and Equipment, net	1,596,367	1,097,362
Goodwill	2,182,669	1,540,637
Intangible Assets, net	945,650	744,978
Other Assets, net	345,451	104,225
Total assets	\$7,804,172	\$5,558,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	\$ 16,475	\$ 1,792
Current maturities of long-term debt	68,094	267,245
Accounts payable	345,254	270,291
Accrued excise taxes	74,356	48,465
Other accrued expenses and liabilities	633,908	442,009
Total current liabilities	1,138,087	1,029,802
Long-Term Debt, less current maturities	3,204,707	1,778,853
Deferred Income Taxes	389,886	187,410
Other Liabilities	291,579	184,989
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Preferred Stock, \$.01 par value – Authorized, 1,000,000 shares; Issued, 170,500 shares at February 28, 2005, and February 29, 2004 (Aggregate liquidation preference of \$172,951 at February 28, 2005)	2	2
Class A Common Stock, \$.01 par value – Authorized, 275,000,000 shares; Issued, 199,885,616 shares at February 28, 2005, and 194,300,438 shares at February 29, 2004	1,999	1,943
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,966,060 shares at February 28, 2005, and 29,129,260 shares at February 29, 2004	289	291
Additional paid-in capital	1,097,177	1,022,931
Retained earnings	1,276,853	1,010,193
Accumulated other comprehensive income	431,843	372,302
	2,808,163	2,407,662
Less – Treasury stock –		
Class A Common Stock, 4,823,650 shares at February 28, 2005, and 5,167,216 shares at February 29, 2004, at cost	(25,984)	(27,786)
Class B Convertible Common Stock, 5,005,800 shares at February 28, 2005, and February 29, 2004, at cost	(2,207)	(2,207)
	(28,191)	(29,993)
Less – Unearned compensation-restricted stock awards	(59)	(50)
Total stockholders' equity	2,779,913	2,377,619
Total liabilities and stockholders' equity	\$7,804,172	\$5,558,673

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

(In thousands, except per share data)

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES P 45

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
Sales	\$5,139,863	\$4,469,270	\$3,583,082
Less – Excise taxes	(1,052,225)	(916,841)	(851,470)
Net sales	4,087,638	3,552,429	2,731,612
Cost of Product Sold	(2,947,049)	(2,576,641)	(1,970,897)
Gross profit	1,140,589	975,788	760,715
Selling, General and Administrative Expenses	(555,694)	(457,277)	(350,993)
Acquisition-Related Integration Costs	(9,421)	–	–
Restructuring and Related Charges	(7,578)	(31,154)	(4,764)
Operating income	567,896	487,357	404,958
Gain on Change in Fair Value of Derivative Instruments	–	1,181	23,129
Equity in Earnings of Equity Method Investees	1,753	542	12,236
Interest Expense, net	(137,675)	(144,683)	(105,387)
Income before income taxes	431,974	344,397	334,936
Provision for Income Taxes	(155,510)	(123,983)	(131,630)
Net Income	276,464	220,414	203,306
Dividends on preferred stock	(9,804)	(5,746)	–
Income Available to Common Stockholders	\$ 266,660	\$ 214,668	\$ 203,306
Share Data:			
Earnings per common share:			
Basic – Class A Common Stock	\$ 1.25	\$ 1.08	\$ 1.15
Basic – Class B Common Stock	\$ 1.14	\$ 0.98	\$ 1.04
Diluted	\$ 1.19	\$ 1.03	\$ 1.10
Weighted average common shares outstanding:			
Basic – Class A Common Stock	191,489	177,267	155,533
Basic – Class B Common Stock	24,043	24,137	24,179
Diluted	233,060	213,897	185,493

The accompanying notes are an integral part of these statements.

(In thousands, except share data)

	Preferred Stock	Common Stock Class A	Class B	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Unearned Compensation	Total
Balance, February 28, 2002	\$ –	\$1,586	\$292	\$ 430,277	\$ 592,219	\$(35,222)	\$(33,366)	\$(50)	\$ 955,736
Comprehensive income:									
Net income for Fiscal 2003	–	–	–	–	203,306	–	–	–	203,306
Other comprehensive (loss) income, net of tax:									
Foreign currency translation adjustments	–	–	–	–	–	18,521	–	–	18,521
Reclassification adjustments for net derivative gains, net of tax effect of \$13	–	–	–	–	–	(21)	–	–	(21)
Minimum pension liability adjustment, net of tax effect of \$18,681	–	–	–	–	–	(42,535)	–	–	(42,535)
Other comprehensive loss, net of tax									(24,035)
Comprehensive income									179,271
Conversion of 59,800 Class B Convertible Common shares to Class A Common shares	–	1	(1)	–	–	–	–	–	–
Exercise of 4,192,122 Class A stock options	–	42	–	28,127	–	–	–	–	28,169
Employee stock purchases of 278,124 treasury shares	–	–	–	1,410	–	–	1,475	–	2,885
Issuance of 14,160 restricted Class A Common shares	–	–	–	127	–	–	74	(201)	–
Amortization of unearned restricted stock compensation	–	–	–	–	–	–	–	100	100
Tax benefit on Class A stock options exercised	–	–	–	8,440	–	–	–	–	8,440
Tax benefit on disposition of employee stock purchases	–	–	–	74	–	–	–	–	74
Other	–	–	–	309	–	–	–	–	309
Balance, February 28, 2003	–	1,629	291	468,764	795,525	(59,257)	(31,817)	(151)	1,174,984
Comprehensive income:									
Net income for Fiscal 2004	–	–	–	–	220,414	–	–	–	220,414
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments, net of tax effect of \$6,254	–	–	–	–	–	410,694	–	–	410,694
Unrealized gain (loss) on cash flow hedges:									
Net derivative gains, net of tax effect of \$15,714	–	–	–	–	–	38,199	–	–	38,199
Reclassification adjustments, net of tax effect of \$507	–	–	–	–	–	(1,250)	–	–	(1,250)
Net gain recognized in other comprehensive income									36,949
Unrealized loss on marketable equity securities, net of tax effect of \$185	–	–	–	–	–	(432)	–	–	(432)
Minimum pension liability adjustment, net of tax effect of \$6,888	–	–	–	–	–	(15,652)	–	–	(15,652)
Other comprehensive income, net of tax									431,559
Comprehensive income									651,973
Conversion of 27,720 Class B Convertible Common shares to Class A Common shares	–	–	–	–	–	–	–	–	–
Exercise of 5,224,622 Class A stock options	–	52	–	36,183	–	–	–	–	36,235
Employee stock purchases of 331,552 treasury shares	–	–	–	1,658	–	–	1,824	–	3,482
Issuance of 19,600,000 Class A Common shares	–	196	–	261,020	–	–	–	–	261,216
Issuance of 170,500 Preferred shares	2	–	–	164,868	–	–	–	–	164,870
Dividend on Preferred shares	–	–	–	–	(5,746)	–	–	–	(5,746)
Issuance of 6,577,826 Class A Common shares in connection with Hardy Acquisition	–	66	–	77,177	–	–	–	–	77,243
Amortization of unearned restricted stock compensation	–	–	–	–	–	–	–	101	101
Tax benefit on Class A stock options exercised	–	–	–	13,029	–	–	–	–	13,029
Tax benefit on disposition of employee stock purchases	–	–	–	82	–	–	–	–	82
Other	–	–	–	150	–	–	–	–	150
Balance, February 29, 2004	\$ 2	\$1,943	\$291	\$1,022,931	\$1,010,193	\$372,302	\$(29,993)	\$ (50)	\$2,377,619

	<i>Preferred Stock</i>	<i>Common Stock Class A</i>	<i>Class B</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive (Loss) Income</i>	<i>Treasury Stock</i>	<i>Unearned Compensation</i>	<i>Total</i>
Balance, February 29, 2004	\$ 2	\$1,943	\$291	\$1,022,931	\$1,010,193	\$372,302	\$(29,993)	\$ (50)	\$2,377,619
Comprehensive income:									
Net income for Fiscal 2005	—	—	—	—	276,464	—	—	—	276,464
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments, net of tax effect of \$11,312	—	—	—	—	—	79,977	—	—	79,977
Unrealized gain (loss) on cash flow hedges:									
Net derivative gains, net of tax effect of \$2,749	—	—	—	—	—	2,150	—	—	2,150
Reclassification adjustments, net of tax effect of \$575	—	—	—	—	—	(1,783)	—	—	(1,783)
Net gain recognized in other comprehensive income									367
Unrealized (loss) gain on marketable equity securities:									
Unrealized loss on marketable equity securities, net of tax effect of \$18	—	—	—	—	—	(42)	—	—	(42)
Reclassification adjustments, net of tax effect of \$203	—	—	—	—	—	474	—	—	474
Net gain recognized in other comprehensive income									432
Minimum pension liability adjustment, net of tax effect of \$8,641	—	—	—	—	—	(21,235)	—	—	(21,235)
Other comprehensive income, net of tax									59,541
Comprehensive income									336,005
Conversion of 163,200 Class B Convertible Common shares to Class A Common shares	—	2	(2)	—	—	—	—	—	—
Exercise of 5,421,978 Class A stock options	—	54	—	48,345	—	—	—	—	48,399
Employee stock purchases of 348,270 treasury shares	—	—	—	2,728	—	—	1,962	—	4,690
Dividend on Preferred Shares	—	—	—	—	(9,804)	—	—	—	(9,804)
Issuance of 5,330 restricted Class A Common shares	—	—	—	71	—	—	30	(101)	—
Amortization of unearned restricted stock compensation	—	—	—	—	—	—	—	92	92
Tax benefit on Class A stock options exercised	—	—	—	22,963	—	—	—	—	22,963
Tax benefit on disposition of employee stock purchases	—	—	—	122	—	—	—	—	122
Other	—	—	—	17	—	—	(190)	—	(173)
Balance, February 28, 2005	\$ 2	\$1,999	\$289	\$1,097,177	\$1,276,853	\$431,843	\$(28,191)	\$ (59)	\$2,779,913

The accompanying notes are an integral part of these statements.

For the Years Ended

	February 28, 2005	February 29, 2004	February 28, 2003
Cash Flows From Operating Activities:			
Net income	\$ 276,464	\$ 220,414	\$ 203,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	93,139	80,079	54,147
Deferred tax provision	48,274	31,398	21,050
Noncash portion of loss on extinguishment of debt	23,181	800	—
Amortization of intangible and other assets	10,516	21,875	5,942
Loss on disposal of assets and asset impairment charges	2,442	5,127	7,263
Stock-based compensation expense	109	233	100
Amortization of discount on long-term debt	72	93	60
Equity in earnings of equity method investees	(1,753)	(542)	(12,236)
Gain on change in fair value of derivative instruments	—	(1,181)	(23,129)
Change in operating assets and liabilities, net of effects from purchases of businesses:			
Accounts receivable, net	(100,280)	(63,036)	6,164
Inventories	(74,466)	96,051	(40,676)
Prepaid expenses and other current assets	(8,100)	2,192	(11,612)
Accounts payable	11,388	(61,647)	10,135
Accrued excise taxes	25,405	7,658	(25,029)
Other accrued expenses and liabilities	11,607	11,417	42,882
Other, net	2,702	(10,624)	(2,314)
Total adjustments	44,236	119,893	32,747
Net cash provided by operating activities	320,700	340,307	236,053
Cash Flows From Investing Activities:			
Purchases of businesses, net of cash acquired	(1,052,471)	(1,069,470)	—
Purchases of property, plant and equipment	(119,664)	(105,094)	(71,575)
Investment in equity method investee	(86,121)	—	—
Payment of accrued earn-out amount	(2,618)	(2,035)	(1,674)
Proceeds from sale of marketable equity securities	14,359	849	—
Proceeds from sale of assets	13,771	13,449	1,288
Proceeds from sale of equity method investment	9,884	—	—
Proceeds from sale of business	—	3,814	—
Net cash used in investing activities	(1,222,860)	(1,158,487)	(71,961)
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt	2,400,000	1,600,000	10,000
Exercise of employee stock options	48,241	36,017	28,706
Proceeds from employee stock purchases	4,690	3,481	2,885
Principal payments of long-term debt	(1,488,686)	(1,282,274)	(151,134)
Net repayment of notes payable	(45,858)	(1,113)	(51,921)
Payment of issuance costs of long-term debt	(24,403)	(33,748)	(20)
Payment of preferred stock dividends	(9,804)	(3,295)	—
Proceeds from equity offerings, net of fees	—	426,086	—
Net cash provided by (used in) financing activities	884,180	745,154	(161,484)
Effect of exchange rate changes on cash and cash investments	(1,521)	96,352	2,241
Net (Decrease) Increase in Cash and Cash Investments	(19,501)	23,326	4,849
Cash and Cash Investments, beginning of year	37,136	13,810	8,961
Cash and Cash Investments, end of year	\$ 17,635	\$ 37,136	\$ 13,810
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 124,899	\$ 137,359	\$ 103,161
Income taxes	\$ 83,675	\$ 76,990	\$ 67,187
Supplemental Disclosures of Noncash Investing and Financing Activities:			
Fair value of assets acquired, including cash acquired	\$ 1,938,035	\$ 1,776,064	\$ —
Liabilities assumed	(878,134)	(621,578)	—
Net assets acquired	1,059,901	1,154,486	—
Less – stock issuance	—	(77,243)	—
Less – direct acquisition costs accrued or previously paid	(985)	(5,939)	—
Less – cash acquired	(6,445)	(1,834)	—
Net cash paid for purchases of businesses	\$ 1,052,471	\$ 1,069,470	\$ —

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: DESCRIPTION OF BUSINESS –

Constellation Brands, Inc. and its subsidiaries (the “Company”) operate primarily in the beverage alcohol industry. The Company is a leading international producer and marketer of beverage alcohol brands with a broad portfolio across the wine, imported beer and spirits categories. The Company has the largest wine business in the world and is a leading multi-category supplier of beverage alcohol in the United States (“U.S.”); a leading producer and exporter of wine from Australia and New Zealand; and both a major producer and independent drinks wholesaler in the United Kingdom (“U.K.”). In North America, the Company distributes its products through wholesale distributors. In Australia, the Company distributes its products directly to off-premise accounts, such as major retail chains, on-premise accounts, such as hotels and restaurants, and large wholesalers. In the U.K., the Company distributes its products directly to off-premise accounts, such as major retail chains, and to other wholesalers. Through the Company’s U.K. wholesale business, the Company distributes its branded products and those of other major drinks companies to on-premise accounts: pubs, clubs, hotels and restaurants.

PRINCIPLES OF CONSOLIDATION –

The consolidated financial statements of the Company include the accounts of Constellation Brands, Inc. and all of its subsidiaries. All intercompany accounts and transactions have been eliminated.

MANAGEMENT’S USE OF ESTIMATES –

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION –

Sales are recognized when title passes to the customer, which is generally when the product is shipped. Amounts billed to customers for shipping and handling are classified as sales. Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons, and rebates.

COST OF PRODUCT SOLD –

The types of costs included in cost of product sold are raw materials, packaging materials, manufacturing costs, plant administrative support and overheads, and freight and warehouse costs (including distribution network costs). Distribution network costs include inbound freight charges and outbound shipping and handling costs, purchasing and

receiving costs, inspection costs, warehousing and internal transfer costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES –

The types of costs included in selling, general and administrative expenses consist predominately of advertising and non-manufacturing administrative and overhead costs. Distribution network costs are not included in the Company’s selling, general and administrative expenses, but are included in cost of product sold as described above. The Company expenses advertising costs as incurred, shown or distributed. Prepaid advertising costs at February 28, 2005, and February 29, 2004, were not material. Advertising expense for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, was \$129.9 million, \$116.1 million and \$89.6 million, respectively.

FOREIGN CURRENCY TRANSLATION –

The “functional currency” for translating the accounts of the Company’s operations outside the U.S. is the local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The resulting translation adjustments are recorded as a component of Accumulated Other Comprehensive Income (Loss) (“AOCI”). Gains or losses resulting from foreign currency denominated transactions are included in selling, general and administrative expenses in the Company’s Consolidated Statements of Income. The Company engages in foreign currency denominated transactions with customers, suppliers and non-U.S. subsidiaries. Aggregate foreign currency transaction gains were \$5.3 million and \$16.6 million for the years ended February 28, 2005, and February 29, 2004, respectively. Aggregate foreign currency transaction gains were not material for the year ended February 28, 2003.

CASH INVESTMENTS –

Cash investments consist of highly liquid investments with an original maturity when purchased of three months or less and are stated at cost, which approximates market value. The amounts at February 28, 2005, and February 29, 2004, are not significant.

ALLOWANCE FOR DOUBTFUL ACCOUNTS –

The Company records an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The majority of the accounts receivable balance is generated from sales to independent distributors with whom the Company has a predetermined collection date arranged through electronic funds transfer. The allowance for doubtful accounts was \$16.3 million and \$16.2 million as of February 28, 2005, and February 29, 2004, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS –

To meet the reporting requirements of Statement of Financial Accounting Standards No. 107, “Disclosures about Fair Value of Financial Instruments,” the Company calculates the fair value

of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models for various types of

financial instruments (such as forwards, options, swaps, etc.) which take into account the present value of estimated future cash flows.

The carrying amount and estimated fair value of the Company's financial instruments are summarized as follows:

	February 28, 2005		February 29, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
Assets:				
Cash and cash investments	\$ 17,635	\$ 17,635	\$ 37,136	\$ 37,136
Accounts receivable	\$ 849,642	\$ 849,642	\$ 635,910	\$ 635,910
Investment in marketable equity securities	\$ —	\$ —	\$ 14,819	\$ 14,819
Currency forward contracts	\$ 45,606	\$ 45,606	\$ 69,993	\$ 69,993
Interest rate swap contracts	\$ 14,684	\$ 14,684	\$ —	\$ —
Liabilities:				
Notes payable to banks	\$ 16,475	\$ 16,475	\$ 1,792	\$ 1,792
Accounts payable	\$ 345,254	\$ 345,254	\$ 270,291	\$ 270,291
Long-term debt, including current portion	\$3,272,801	\$3,374,337	\$2,046,098	\$2,181,782
Currency forward contracts	\$ 2,061	\$ 2,061	\$ 1,839	\$ 1,839

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- **Cash and cash investments, accounts receivable and accounts payable:** The carrying amounts approximate fair value due to the short maturity of these instruments.
- **Investment in marketable equity securities:** The fair value is estimated based on quoted market prices.
- **Currency forward contracts:** The fair value is estimated based on quoted market prices.
- **Interest rate swap contracts:** The fair value is estimated based on quoted market prices.
- **Notes payable to banks:** These instruments are variable interest rate bearing notes for which the carrying value approximates the fair value.
- **Long-term debt:** The senior credit facility is subject to variable interest rates which are frequently reset; accordingly, the carrying value of this debt approximates its fair value. The fair value of the remaining long-term debt, which is all fixed rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities.

DERIVATIVE INSTRUMENTS –

As a multinational company, the Company is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect the Company's results of operations and financial condition. The amount of volatility realized will vary based upon the effectiveness and level of derivative instruments outstanding during a particular period of time, as well as the currency and interest rate market movements during that same period.

The Company enters into derivative instruments, including interest rate swaps, foreign currency forwards, and/or purchased foreign currency options to manage interest rate and foreign currency risks. In accordance with Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"),

"Accounting for Derivative Instruments and Hedging Activities," as amended, the Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. The fair values of the Company's derivative instruments change with fluctuations in interest rates and/or currency rates and are expected to offset changes in the values of the underlying exposures. The Company's derivative instruments are held solely to hedge economic exposures. The Company follows strict policies to manage interest rate and foreign currency risks, including prohibitions on derivative market-making or other speculative activities. As of February 28, 2005, and February 29, 2004, the Company had foreign exchange contracts outstanding with a notional value of \$601.6 million and \$735.8 million, respectively. As of February 28, 2005, the Company had interest rate swap agreements outstanding with a notional value of \$1,200.0 million. The Company did not have any interest rate swap agreements outstanding as of February 29, 2004. Subsequent to February 28, 2005, the Company monetized the value of the interest rate swaps by replacing them with new swaps which extended the hedged period through fiscal 2010. The Company received \$30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from AOCI ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statement of Income. The effective interest rate remains the same under the new swap structure at 4.1%.

To qualify for hedge accounting under SFAS No. 133, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk that is being hedged, the derivative instrument, how effectiveness is being assessed and how ineffectiveness will be measured. The derivative must be highly effective in offsetting either changes in the fair value or cash flows, as appropriate, of the risk being

hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures.

Certain of the Company's derivative instruments do not qualify for SEAS No. 133 hedge accounting treatment; for others, the Company chooses not to maintain the required documentation to apply hedge accounting treatment. The Company's derivative policy permits the use of non-SEAS No. 133 hedging when the hedging instrument is settled within the fiscal quarter or offsets a recognized balance sheet exposure. Under these circumstances, the mark to fair value is reported currently through earnings. Furthermore, when it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively. The Company discontinues hedge accounting prospectively when (1) the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Cash flow hedges: The Company is exposed to fluctuations in foreign currency cash flows in connection with sales to third parties, intercompany sales, available for sale securities and intercompany loans and interest payments. Forward and option contracts are used to hedge some of these risks. Effectiveness is assessed based on changes in forward rates. Derivatives used to manage cash flow exposures generally mature within 36 months or less, with a maximum maturity of five years.

The Company records the fair value of its foreign exchange contracts qualifying for cash flow hedge accounting treatment in its consolidated balance sheet with the related gain or loss on those contracts deferred in stockholders' equity (as a component of AOCI). These deferred gains or losses are recognized in the Company's Consolidated Statement of Income in the same period in which the underlying hedged items are recognized, and on the same line item as the underlying hedged items. However, to the extent that any derivative instrument is not considered to be perfectly effective in offsetting the change in the value of the hedged item, the amount related to the ineffective portion of this derivative instrument is immediately recognized in the Company's Consolidated Statement of Income.

The Company expects \$14.3 million of net gains to be reclassified from AOCI to earnings within the next 12 months. The amount of hedge ineffectiveness associated with the Company's designated cash flow hedge instruments recognized in the Company's Consolidated Statements of Income during the years ended February 28, 2005, February 29, 2004, and February 28, 2003, was immaterial. All components of the Company's derivative instruments' gains or losses are included in the assessment of hedge effectiveness. In addition, the amount of net gains reclassified into earnings as a result of the discontinuance of cash flow hedge accounting due to the

probability that the original forecasted transaction would not occur by the end of the originally specified time period was immaterial for the years ended February 28, 2005, February 29, 2004, and February 28, 2003.

Fair value hedges: Fair value hedges are hedges that offset the risk of changes in the fair values of recorded assets and liabilities, and firm commitments. The Company records changes in fair value of derivative instruments which are designated and deemed effective as fair value hedges, in earnings offset by the corresponding changes in the fair value of the hedged items.

The Company is exposed to fluctuations in the value of foreign currency denominated receivables and payables, foreign currency investments, primarily consisting of loans to subsidiaries, and cash flows related primarily to repatriation of those loans/investments. Forward contracts, generally less than 12 months in duration, are used to hedge some of these risks. Effectiveness is assessed based on changes in forward rates. Gains and losses on the derivative instruments used to hedge the foreign exchange volatility associated with foreign currency dominated receivables and payables is recorded within selling, general and administrative expenses.

The amount of hedge ineffectiveness associated with the Company's designated fair value hedge instruments recognized in the Company's Consolidated Statements of Income during the years ended February 28, 2005, February 29, 2004, and February 28, 2003, was immaterial. All components of the Company's derivative instruments' gains or losses are included in the assessment of hedge effectiveness. There were no gains or losses recognized in earnings resulting from a hedged firm commitment no longer qualifying as a fair value hedge.

Net investment hedges: Net investment hedges are hedges that use derivative instruments or non-derivative instruments to hedge the foreign currency exposure of a net investment in a foreign operation. The Company manages currency exposures resulting from its net investments in foreign subsidiaries principally with debt denominated in the related foreign currency. Gains and losses on these instruments are recorded as foreign currency translation adjustment in AOCI. Currently, the Company has designated the Sterling Senior Notes and the Sterling Series C Senior Notes (as defined in Note 9) totaling £155.0 million aggregate principal amount as a hedge against the net investment in the Company's U.K. subsidiary. For the years ended February 28, 2005, February 29, 2004, and February 28, 2003, net losses of \$8.1 million, \$45.9 million and \$24.0 million, respectively, are included in foreign currency translation adjustments within AOCI.

Counterparty credit risk: Counterparty risk relates to losses the Company could incur if a counterparty defaults on a derivative contract. The Company manages exposure to counterparty credit risk by requiring specified minimum credit standards and diversification of counterparties. The Company enters into master agreements with our counterparties that allow netting

of certain exposures in order to manage this risk. All of the Company's counterpart exposures are with counterparties that have investment grade ratings. The Company has procedures to monitor the credit exposure for both mark to market and future potential exposures.

INVENTORIES –

Inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of cost include materials, labor and overhead and are classified as follows:

	February 28, 2005	February 29, 2004
<i>(In thousands)</i>		
Raw materials and supplies	\$ 71,562	\$ 49,633
In-process inventories	957,567	803,200
Finished case goods	578,606	408,545
	<u>\$1,607,735</u>	<u>\$1,261,378</u>

A substantial portion of barreled whiskey and brandy will not be sold within one year because of the duration of the aging process. All barreled whiskey and brandy are classified as in-process inventories and are included in current assets, in accordance with industry practice. Bulk wine inventories are also included as in-process inventories within current assets, in accordance with the general practices of the wine industry, although a portion of such inventories may be aged for periods greater than one year. Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whiskey and brandy held for aging are included in inventory costs.

The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of goods sold. If the future demand for the Company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which would result in additional expense to the Company and affect its results of operations.

PROPERTY, PLANT AND EQUIPMENT –

Property, plant and equipment is stated at cost. Major additions and betterments are charged to property accounts, while maintenance and repairs are charged to operations as incurred. The cost of properties sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts at the time of disposal and resulting gains and losses are included as a component of operating income.

DEPRECIATION –

Depreciation is computed primarily using the straight-line method over the following estimated useful lives:

	<i>Depreciable Life in Years</i>
Land improvements	15 to 32
Vineyards	26
Buildings and improvements	10 to 44
Machinery and equipment	3 to 35
Motor vehicles	3 to 7

GOODWILL AND OTHER INTANGIBLE ASSETS –

Effective March 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Additionally, in the year of adoption, a transitional impairment test is also required. The Company uses December 31 as its annual impairment test measurement date. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives and are also subject to review for impairment. Upon adoption of SFAS No. 142, the Company determined that certain of its intangible assets met the criteria to be considered indefinite lived and, accordingly, ceased their amortization effective March 1, 2002. These intangible assets consisted principally of trademarks. The Company's trademarks relate to well established brands owned by the Company which were previously amortized over 40 years. Intangible assets determined to have a finite life, primarily distribution agreements, continue to be amortized over their estimated useful lives which did not require modification as a result of adopting SFAS No. 142. Nonamortizable intangible assets are tested for impairment in accordance with the provisions of SFAS No. 142 and amortizable intangible assets are tested for impairment in accordance with the provisions of SFAS No. 144 (as defined below). Note 6 provides a summary of intangible assets segregated between amortizable and non-amortizable amounts. No instances of impairment were noted on the Company's goodwill and other intangible assets for the years ended February 28, 2005, February 29, 2004, and February 28, 2003.

OTHER ASSETS –

Other assets include the following: (i) deferred financing costs which are stated at cost, net of accumulated amortization, and are amortized on an effective interest basis over the term of the related debt; (ii) derivative assets which are stated at fair value (see discussion above); (iii) investments in marketable securities which are stated at fair value (see Note 7); and (iv) investments in equity method investees which are carried under the equity method of accounting (see Note 7).

LONG-LIVED ASSETS IMPAIRMENT –

In accordance with Statement of Financial Accounting Standards No. 144 (“SFAS No. 144”), “Accounting for the Impairment or Disposal of Long-Lived Assets,” the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

Pursuant to this policy and in connection with the restructuring plan of the Constellation Wines segment (see Note 19), the Company recorded losses of \$2.1 million on the disposal of certain property, plant and equipment during the year ended February 29, 2004. These losses are included in restructuring and related charges on the Company’s Consolidated Statements of Income, as they are part of the restructuring plan.

During the year ended February 28, 2003, the Company recorded an asset impairment charge of \$4.8 million in connection with two of the production facilities disposed of during the year ended February 29, 2004, under the Constellation Wines segment’s restructuring plan. One of the facilities, which was held and used prior to its sale in the fourth quarter of fiscal 2004, was written down to its appraised value and comprised most of the impairment charge. The other facility, which was held for sale during the year ended February 29, 2004, was written down to a value based on the Company’s estimate of salvage value. These assets were sold in the second quarter of fiscal 2004. This impairment charge is included in restructuring and related charges on the Company’s Consolidated Statements of Income since it is part of the realignment of its business operations. The impaired assets consist primarily of buildings, machinery and equipment located at the two production facilities. The charge resulted from the determination that the assets’ undiscounted future cash flows were less than their carrying values.

INCOME TAXES –

The Company uses the asset and liability method of accounting for income taxes. This method accounts for deferred income taxes by applying statutory rates in effect at the balance sheet date to the difference between the financial reporting and tax bases of assets and liabilities.

ENVIRONMENTAL –

Environmental expenditures that relate to current operations or to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities for environmental risks or components thereof are recorded when environmental assessments and/or remedial efforts are probable, and the cost can

be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company’s commitment to a formal plan of action. Liabilities for environmental costs were not material at February 28, 2005, and February 29, 2004.

EARNINGS PER COMMON SHARE –

Effective June 1, 2004, the Company adopted EITF Issue No. 03-6 (“EITF No. 03-6”), “Participating Securities and the Two-Class Method under FASB Statement No. 128.” EITF No. 03-6 clarifies what is meant by a “participating security,” provides guidance on applying the two-class method for computing earnings per share, and requires affected companies to retroactively restate earnings per share amounts for all periods presented.

The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. With respect to dividend rights, the Class A Common Stock is entitled to cash dividends of at least ten percent higher than those declared and paid on the Class B Convertible Common Stock. Therefore, under EITF No. 03-6, the Class B Convertible Common Stock is considered a participating security requiring the use of the two-class method for the computation of net income per share – basic, rather than the if-converted method as previously used. In addition, the shares of Class B Convertible Common Stock are considered to be participating convertible securities since the shares of Class B Convertible Common Stock are convertible into shares of Class A Common Stock on a one-to-one basis at any time at the option of the holder. The two-class computation method for each period reflects the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the minimum dividend rights of each class of stock. Earnings per share – basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented. Earnings per share – diluted continues to be computed using the if-converted method (see Note 16).

Basic earnings per common share excludes the effect of common stock equivalents and is computed using the two-class computation method. Diluted earnings per common share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock and Preferred Stock (as defined in Note 15) using the if-converted method.

COMMON STOCK SPLITS –

During April 2005, the Board of Directors approved two-for-one stock splits of the Company’s Class A Common Stock and Class B Convertible Common Stock, which will be distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to the common stock splits.

STOCK-BASED EMPLOYEE COMPENSATION PLANS –

As of February 28, 2005, the Company has four stock-based employee compensation plans, which are described more fully in Note 15. The Company applies the intrinsic value method described in Accounting Principles Board Opinion No. 25 (“APB No. 25”), “Accounting for Stock Issued to Employees,” and related interpretations in accounting for these plans. In accordance with APB No. 25, the compensation cost for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. The Company utilizes the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (“SFAS No. 123”), “Accounting for Stock-Based Compensation,” as amended. (See Note 22 for additional discussion regarding Statement of Financial Accounting Standards No. 123 (revised 2004) (“SFAS No. 123(R)”)), “Share-Based Payment,” which will become effective for the Company beginning March 1, 2006.) Options granted under the Company’s stock option plans have an exercise price equal to the market value of the underlying common stock on the date of grant; therefore, no incremental compensation expense has been recognized for grants made to employees under the Company’s stock option plans. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands, except per share data)</i>			
Net income, as reported	\$276,464	\$220,414	\$203,306
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	69	160	248
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(33,461)	(16,582)	(13,695)
Pro forma net income	\$243,072	\$203,992	\$189,859
Earnings per common share – basic:			
Class A Common Stock, as reported	\$ 1.25	\$ 1.08	\$ 1.15
Class B Convertible Common Stock, as reported	\$ 1.14	\$ 0.98	\$ 1.04
Class A Common Stock, pro forma	\$ 1.09	\$ 1.00	\$ 1.07
Class B Convertible Common Stock, pro forma	\$ 0.99	\$ 0.90	\$ 0.97
Earnings per common share – diluted, as reported	\$ 1.19	\$ 1.03	\$ 1.10
Earnings per common share – diluted, pro forma	\$ 1.04	\$ 0.95	\$ 1.02

2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (revised December 2003) (“FIN No. 46(R)”), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51.” FIN No. 46(R) supersedes FASB Interpretation No. 46 (“FIN No. 46”), “Consolidation of Variable Interest Entities.” FIN No. 46(R) retains many of the basic concepts introduced in FIN No. 46; however, it also introduces a new scope exception for certain types of entities that qualify as a business as defined in FIN No. 46(R) and revises the method of calculating expected losses and residual returns for determination of primary beneficiaries, including new guidance for assessing variable interests. The adoption of FIN No. 46(R) did not have a material impact on the Company’s consolidated financial statements.

As discussed in Note 1, effective June 1, 2004, the Company adopted EITF No. 03-6, which provides guidance on applying the two-class method for computing earnings per share, and requires affected companies to retroactively restate earnings per share amounts for all periods presented (see Note 16).

In December 2003, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 132 (revised 2003) (“SFAS No. 132(R)”), “Employers’ Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, and 106.” SFAS No. 132(R) supersedes Statement of Financial Accounting Standards No. 132 (“SFAS No. 132”), by revising employers’ disclosures about pension plans and other postretirement benefit plans. SFAS No. 132(R) requires additional disclosures to those in SFAS No. 132 regarding the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132(R) also amends Accounting Principles Board Opinion No. 28 (“APB Opinion No. 28”), “Interim Financial Reporting,” to require additional disclosures for interim periods. The Company had adopted certain of the annual disclosure provisions of SFAS No. 132(R), primarily those related to its U.S. postretirement plan, for the year ended February 29, 2004. In addition, the Company had adopted the interim disclosure provisions of SFAS No. 132(R) for its interim reporting during the year ended February 28, 2005. The Company has completed its adoption of the remaining annual disclosure provisions, primarily those related to its foreign plans, for the year ended February 28, 2005.

3. ACQUISITIONS:

ACQUISITION OF ROBERT MONDAVI –

On December 22, 2004, the Company acquired all of the outstanding capital stock of The Robert Mondavi Corporation (“Robert Mondavi”), a leading premium wine producer based in Napa, California. In connection with the production of its products, Robert Mondavi owns, operates and has an interest in certain wineries and controls certain vineyards. Robert

Mondavi produces, markets and sells premium, super-premium and fine California wines under the Woodbridge by Robert Mondavi, Robert Mondavi Private Selection and Robert Mondavi Winery brand names. Woodbridge and Robert Mondavi Private Selection are the leading premium and super-premium wine brands by volume, respectively, in the United States.

The acquisition of Robert Mondavi supports the Company's strategy of strengthening the breadth of its portfolio across price segments to capitalize on the overall growth in the premium, super-premium and fine wine categories. The Company believes that the acquired Robert Mondavi brand names have strong brand recognition globally. The vast majority of Robert Mondavi's sales are generated in the United States. The Company intends to leverage the Robert Mondavi brands in the United States through its selling, marketing and distribution infrastructure. The Company also intends to further expand distribution for the Robert Mondavi brands in Europe through its Constellation Europe infrastructure.

The Company and Robert Mondavi have complementary businesses that share a common growth orientation and operating philosophy. The Robert Mondavi acquisition provides the Company with a greater presence in the fine wine sector within the United States and the ability to capitalize on the broader geographic distribution in strategic international markets. The Robert Mondavi acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. In particular, the Company believes there are growth opportunities for premium, super-premium and fine wines in the United Kingdom, United States and other wine markets. Total consideration paid in cash to the Robert Mondavi shareholders was \$1,030.7 million. Additionally, the Company expects to incur direct acquisition costs of \$11.2 million. The purchase price was financed with borrowings under the Company's 2004 Credit Agreement (as defined in Note 9). In accordance with the purchase method of accounting, the acquired net assets are recorded at fair value at the date of acquisition. The purchase price was based primarily on the estimated future operating results of Robert Mondavi, including the factors described above, as well as an estimated benefit from operating cost synergies.

The results of operations of the Robert Mondavi business are reported in the Constellation Wines segment and have been included in the Consolidated Statement of Income since the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the Robert Mondavi acquisition at the date of acquisition. The Company is in the process of obtaining third-party valuations of certain assets and liabilities, and refining its restructuring plan which is under development and will be finalized during the Company's year ending February 28, 2006 (see Note 19). Accordingly, the

allocation of the purchase price is subject to refinement. Estimated fair values at December 22, 2004, are as follows:

<i>(In thousands)</i>	
Current assets	\$ 494,788
Property, plant and equipment	452,902
Other assets	178,823
Trademarks	186,000
Goodwill	590,459
Total assets acquired	1,902,972
Current liabilities	309,051
Long-term liabilities	552,060
Total liabilities acquired	861,111
Net assets acquired	\$1,041,861

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

In connection with the Robert Mondavi acquisition and Robert Mondavi's previously disclosed intention to sell certain of its winery properties and related assets, and other vineyard properties, the Company has classified certain assets as held for sale as of February 28, 2005. The Company expects to sell these assets during the year ended February 28, 2006, for net proceeds of approximately \$150 million to \$175 million. No gain or loss is expected to be recognized upon the sale of these assets.

HARDY ACQUISITION –

On March 27, 2003, the Company acquired control of BRL Hardy Limited, now known as Hardy Wine Company Limited ("Hardy"), and on April 9, 2003, the Company completed its acquisition of all of Hardy's outstanding capital stock. As a result of the acquisition of Hardy, the Company also acquired the remaining 50% ownership of Pacific Wine Partners LLC ("PWP"), the joint venture the Company established with Hardy in July 2001. The acquisition of Hardy along with the remaining interest in PWP is referred to together as the "Hardy Acquisition." Through this acquisition, the Company acquired one of Australia's largest wine producers with interests in wineries and vineyards in most of Australia's major wine regions as well as New Zealand and the United States and Hardy's marketing and sales operations in the United Kingdom.

Total consideration paid in cash and Class A Common Stock to the Hardy shareholders was \$1,137.4 million. Additionally, the Company recorded direct acquisition costs of \$17.2 million. The acquisition date for accounting purposes is March 27, 2003. The Company has recorded a \$1.6 million reduction in the purchase price to reflect imputed interest between the accounting acquisition date and the final payment of consideration. This charge is included as interest expense in the Consolidated Statement of Income for the year ended February 29, 2004. The cash portion of the purchase price paid to the Hardy shareholders and optionholders (\$1,060.2 million) was financed with \$660.2 million of borrowings under the Company's then existing credit agreement and \$400.0 million

of borrowings under the Company's then existing bridge loan agreement. Additionally, the Company issued 6,577,826 shares of the Company's Class A Common Stock, which were valued at \$77.2 million based on the simple average of the closing market price of the Company's Class A Common Stock beginning two days before and ending two days after April 4, 2003, the day the Hardy shareholders elected the form of consideration they wished to receive. The purchase price was based primarily on a discounted cash flow analysis that contemplated, among other things, the value of a broader geographic distribution in strategic international markets and a presence in the important Australian winemaking regions. The Company and Hardy have complementary businesses that share a common growth orientation and operating philosophy. The Hardy Acquisition supports the Company's strategy of growth and breadth across categories and geographies, and strengthens its competitive position in its core markets. The purchase price and resulting goodwill were primarily based on the growth opportunities of the brand portfolio of Hardy. In particular, the Company believes there are growth opportunities for Australian wines in the United Kingdom, United States and other wine markets. This acquisition supports the Company's strategy of driving long-term growth and positions the Company to capitalize on the growth opportunities in "new world" wine markets.

The results of operations of Hardy and PWP are reported in the Constellation Wines segment and have been included in the Consolidated Statements of Income since the accounting acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed in the Hardy Acquisition at March 27, 2003, as adjusted for the final appraisal:

<i>(In thousands)</i>	
Current assets	\$ 557,128
Property, plant and equipment	332,125
Other assets	30,135
Trademarks	263,120
Goodwill	613,608
Total assets acquired	1,796,116
Current liabilities	311,138
Long-term liabilities	331,954
Total liabilities acquired	643,092
Net assets acquired	\$1,153,024

The trademarks are not subject to amortization. None of the goodwill is expected to be deductible for tax purposes.

The following table sets forth the unaudited pro forma results of operations of the Company for the years ended February 28, 2005, and February 29, 2004, respectively. The unaudited pro forma results of operations for the years ended February 28, 2005, and February 29, 2004, give effect to the Robert Mondavi acquisition as if it occurred on March 1, 2003. The unaudited pro forma results of operations for the year ended February 29,

2004, do not give effect to the Hardy Acquisition as if it occurred on March 1, 2003, as it is not significant. The unaudited pro forma results of operations are presented after giving effect to certain adjustments for depreciation, amortization of deferred financing costs, interest expense on the acquisition financing, interest expense associated with adverse grape contracts, and related income tax effects. The unaudited pro forma results of operations are based upon currently available information and certain assumptions that the Company believes are reasonable under the circumstances. The unaudited pro forma results of operations for the year ended February 29, 2004, do not reflect total pretax nonrecurring charges of \$21.9 million (\$0.07 per share on a diluted basis) related to transaction costs, primarily for the acceleration of vesting of stock options, legal fees and investment banker fees, all of which were incurred by Robert Mondavi prior to the acquisition. The unaudited pro forma results of operations do not purport to present what the Company's results of operations would actually have been if the aforementioned transactions had in fact occurred on such date or at the beginning of the period indicated, nor do they project the Company's financial position or results of operations at any future date or for any future period.

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>
<i>(In thousands, except per share data)</i>		
Net sales	\$4,479,603	\$4,017,436
Income before income taxes	\$ 384,787	\$ 375,179
Net income	\$ 247,872	\$ 239,864
Income available to common stockholders	\$ 238,068	\$ 234,118
Earnings per common share – basic:		
Class A Common Stock	\$ 1.12	\$ 1.18
Class B Common Stock	\$ 1.01	\$ 1.07
Earnings per common share – diluted	\$ 1.06	\$ 1.12
Weighted average common shares outstanding – basic:		
Class A Common Stock	191,489	177,267
Class B Common Stock	24,043	24,137
Weighted average common shares outstanding – diluted	233,060	213,897

4. PROPERTY, PLANT AND EQUIPMENT:

The major components of property, plant and equipment are as follows:

	<i>February 28, 2005</i>	<i>February 29, 2004</i>
<i>(In thousands)</i>		
Land and land improvements	\$ 317,835	\$ 159,695
Vineyards	227,111	118,793
Buildings and improvements	367,544	287,326
Machinery and equipment	1,029,297	809,942
Motor vehicles	19,351	13,714
Construction in progress	63,776	59,663
	2,024,914	1,449,133
Less – Accumulated depreciation	(428,547)	(351,771)
	\$1,596,367	\$1,097,362

5. GOODWILL:

The changes in the carrying amount of goodwill for the year ended February 28, 2005, are as follows:

	<i>Constellation Wines</i>	<i>Constellation Beers and Spirits</i>	<i>Consolidated</i>
<i>(In thousands)</i>			
Balance, February 29, 2004	\$1,407,350	\$133,287	\$1,540,637
Purchase accounting allocations	594,960	17,073	612,033
Foreign currency translation adjustments	26,007	1,065	27,072
Purchase price earn-out	2,927	—	2,927
Balance, February 28, 2005	\$2,031,244	\$151,425	\$2,182,669

The Constellation Wines purchase accounting allocations of goodwill totaling \$595.0 million consist of \$590.5 million of goodwill resulting from the Robert Mondavi acquisition and \$6.9 million of goodwill resulting from the acquisition of the remaining 50% of an immaterial joint venture, partially offset by final purchase accounting allocations associated with the Hardy Acquisition. The Constellation Beers and Spirits purchase accounting allocations of goodwill totaling \$17.1 million consist of goodwill resulting from the consolidation of a newly formed joint venture entity in accordance with the provisions of FIN No. 46(R) (see Note 2).

6. INTANGIBLE ASSETS:

The major components of intangible assets are:

	<i>February 28, 2005</i>		<i>February 29, 2004</i>	
	<i>Gross Carrying Amount</i>	<i>Net Carrying Amount</i>	<i>Gross Carrying Amount</i>	<i>Net Carrying Amount</i>
<i>(In thousands)</i>				
Amortizable intangible assets:				
Distributor relationships	\$ 3,700	\$ 3,679	\$ —	\$ —
Distribution agreements	12,884	1,666	12,883	4,455
Other	5,230	1,229	4,021	64
Total	<u>\$21,814</u>	<u>6,574</u>	<u>\$16,904</u>	<u>4,519</u>
Nonamortizable intangible assets:				
Trademarks		920,664		722,047
Agency relationships		18,412		18,412
Total		<u>939,076</u>		<u>740,459</u>
Total intangible assets		<u>\$945,650</u>		<u>\$744,978</u>

The difference between the gross carrying amount and net carrying amount for each item presented is attributable to accumulated amortization. Amortization expense for intangible assets was \$2.8 million, \$2.6 million, and \$2.2 million

for the years ended February 28, 2005, February 29, 2004 and February 28, 2003, respectively. Estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

<i>(In thousands)</i>	
2006	\$1,683
2007	\$ 705
2008	\$ 390
2009	\$ 377
2010	\$ 355
Thereafter	<u>\$3,064</u>

7. OTHER ASSETS:

The major components of other assets are as follows:

	<i>February 28, 2005</i>	<i>February 29, 2004</i>
<i>(In thousands)</i>		
Investment in equity method investees	\$259,181	\$ 8,412
Deferred financing costs	34,827	54,186
Derivative assets	23,147	41,517
Investment in marketable equity security	—	14,819
Other	37,688	7,580
	<u>354,843</u>	<u>126,514</u>
Less – Accumulated amortization	<u>(9,392)</u>	<u>(22,289)</u>
	<u>\$345,451</u>	<u>\$104,225</u>

In connection with the Hardy Acquisition and the Robert Mondavi acquisition, the Company acquired several investments which are being accounted for under the equity method. The primary investments consist of 50% owned joint venture arrangements and consist of Opus One and Ornellaia. The percentage of ownership of the remaining investments ranges from 20% to 50%. The Company is in the process of obtaining third party valuations of the investments acquired as part of the Robert Mondavi acquisition; thus certain of the investment balances are subject to refinement.

In addition, on December 3, 2004, the Company purchased a 40% interest in Ruffino S.r.l. (“Ruffino”), the well-known Italian fine wine company, for a preliminary purchase price of \$86.1 million. The purchase price is subject to final closing adjustments which the Company does not expect to be material. As of February 1, 2005, the Company’s Constellation Wines segment began distribution of Ruffino’s products in the U.S. Amounts related to this distribution agreement were not material as of February 28, 2005. This investment is also being accounted for under the equity method.

During the year ended February 28, 2005, the Company sold its available-for-sale marketable equity security for cash proceeds

of \$14.4 million resulting in a gross realized loss of \$0.7 million. The Company uses the average cost method as its basis on which cost is determined in computing realized gains or losses.

Amortization expense for other assets was included in selling, general and administrative expenses and was \$7.7 million, \$19.3 million, and \$3.7 million for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively. Amortization expense for the year ended February 29, 2004, included \$7.9 million related to amortization of the deferred financing costs associated with the Company's then existing bridge loan agreement. As of February 29, 2004, the deferred financing costs associated with the Company's then existing bridge loan agreement were fully amortized.

9. BORROWINGS:

Borrowings consist of the following:

	February 28, 2005			February 29, 2004	
	Current	Long-term	Total	Current	Total
<i>(In thousands)</i>					
Notes Payable to Banks:					
Senior Credit Facility – Revolving Credit Loans	\$14,000	\$ –	\$ 14,000	\$ –	
Other	2,475	–	2,475		1,792
	\$16,475	\$ –	\$ 16,475	\$ –	1,792
Long-term Debt:					
Senior Credit Facility – Term Loans	\$60,000	\$2,220,500	\$2,280,500	\$ 860,000	
Senior Notes	–	697,297	697,297		689,099
Senior Subordinated Notes	–	250,000	250,000		450,000
Other Long-term Debt	8,094	36,910	45,004		46,999
	\$68,094	\$3,204,707	\$3,272,801		\$2,046,098

SENIOR CREDIT FACILITY –

In connection with the acquisition of Robert Mondavi, on December 22, 2004, the Company and its U.S. subsidiaries (excluding certain inactive subsidiaries), together with certain of its subsidiaries organized in foreign jurisdictions, JPMorgan Chase Bank, N.A. as a lender and administrative agent, and certain other agents, lenders, and financial institutions entered into a new credit agreement (the “2004 Credit Agreement”). The 2004 Credit Agreement provides for aggregate credit facilities of \$2.9 billion, consisting of a \$600.0 million tranche A term loan facility due in November 2010, a \$1.8 billion tranche B term loan facility due in November 2011, and a \$500.0 million revolving credit facility (including a sub-facility for letters of credit of up to \$60.0 million) which terminates in December 2010. Proceeds of the 2004 Credit Agreement were used to pay off the Company's obligations under its prior senior credit facility, to fund the cash consideration payable in connection with its acquisition of Robert Mondavi, and to pay certain obligations of Robert Mondavi, including indebtedness outstanding under its bank facility and unsecured notes of \$355.4 million. The Company uses the remaining availability under the 2004 Credit Agreement to fund its working capital

8. OTHER ACCRUED EXPENSES AND LIABILITIES:

The major components of other accrued expenses and liabilities are as follows:

	February 28, 2005	February 29, 2004
<i>(In thousands)</i>		
Advertising and promotions	\$193,353	\$132,821
Adverse grape contracts (Note 14)	66,737	40,105
Salaries and commissions	63,367	50,097
Income taxes payable	59,754	57,065
Other	250,697	161,921
	\$633,908	\$442,009

needs on an as needed basis. In connection with entering into the 2004 Credit Agreement, the Company recorded a charge during the year ended February 28, 2005, of \$21.4 million in selling, general and administrative expenses for the write-off of bank fees related to the repayment of the Company's prior senior credit facility.

The tranche A term loan facility and the tranche B term loan facility were fully drawn on December 22, 2004. As of February 28, 2005, the required principal repayments of the tranche A term loan and the tranche B term loan are as follows:

	Tranche A Term Loan	Tranche B Term Loan	Total
<i>(In thousands)</i>			
2006	\$ 60,000	\$ –	\$ 60,000
2007	67,500	17,168	84,668
2008	97,500	17,168	114,668
2009	120,000	17,168	137,168
2010	127,500	17,168	144,668
Thereafter	112,500	1,626,828	1,739,328
	\$585,000	\$1,695,500	\$2,280,500

The rate of interest payable, at the Company's option, is a function of LIBOR plus a margin, the federal funds rate plus a margin, or the prime rate plus a margin. The margin is adjustable based upon the Company's debt ratio (as defined in the 2004 Credit Agreement) and, with respect to LIBOR borrowings, ranges between 1.00% and 1.75%. As of February 28, 2005, the LIBOR margin for the revolving credit facility and the tranche A term loan facility is 1.50%, while the LIBOR margin on the tranche B term loan facility is 1.75%.

The Company's obligations are guaranteed by its U.S. subsidiaries (excluding certain inactive subsidiaries) and by certain of its foreign subsidiaries. These obligations are also secured by a pledge of (i) 100% of the ownership interests in most of the Company's U.S. subsidiaries and (ii) 65% of the voting capital stock of certain of the Company's foreign subsidiaries.

The Company and its subsidiaries are also subject to customary lending covenants including those restricting additional liens, the incurrence of additional indebtedness (including guarantees of indebtedness), the sale of assets, the payment of dividends, transactions with affiliates, the disposition and acquisition of property and the making of certain investments, in each case subject to numerous baskets, exceptions and thresholds. The financial covenants are limited to maximum total debt and senior debt coverage ratios and minimum fixed charges and interest coverage ratios. As of February 28, 2005, the Company is in compliance with all of its covenants under its 2004 Credit Agreement.

As of February 28, 2005, under the 2004 Credit Agreement, the Company had outstanding tranche A term loans of \$585.0 million bearing a weighted average interest rate of 4.3%, tranche B term loans of \$1,695.5 million bearing a weighted average interest rate of 4.4%, revolving loans of \$14.0 million bearing a weighted average interest rate of 3.8%, undrawn revolving letters of credit of \$36.7 million, and \$449.3 million in revolving loans available to be drawn.

As of February 28, 2005, the Company had outstanding five year interest rate swap agreements to minimize interest rate volatility. The swap agreements fix LIBOR interest rates on \$1,200.0 million of the Company's floating LIBOR rate debt at an average rate of 4.1% over the five-year term. Subsequent to February 28, 2005, the Company monetized the value of the interest rate swaps by replacing them with new swaps which extended the hedged period through fiscal 2010. The Company received \$30.3 million in proceeds from the unwinding of the original swaps. This amount will be reclassified from AOCI ratably into earnings in the same period in which the original hedged item is recorded in the Consolidated Statement of Income. The effective interest rate remains the same under the new swap structure at 4.1%.

FOREIGN SUBSIDIARY FACILITIES –

The Company has additional credit arrangements available totaling \$176.0 million as of February 28, 2005. These arrangements support the financing needs of certain of the Company's foreign subsidiary operations. Interest rates and other terms of these borrowings vary from country to country, depending on local market conditions. As of February 28, 2005, and February 28, 2004, amounts outstanding under the subsidiary credit arrangements were \$34.0 million and \$36.1 million, respectively.

SENIOR NOTES –

On August 4, 1999, the Company issued \$200.0 million aggregate principal amount of 8½% Senior Notes due August 2006 (the "August 1999 Senior Notes"). Interest on the August 1999 Senior Notes is payable semiannually on February 1 and August 1. As of February 28, 2005, the Company had outstanding \$200.0 million aggregate principal amount of August 1999 Senior Notes.

On November 17, 1999, the Company issued £75.0 million (\$121.7 million upon issuance) aggregate principal amount of 8½% Senior Notes due November 2009 (the "Sterling Senior Notes"). Interest on the Sterling Senior Notes is payable semiannually on May 15 and November 15. In March 2000, the Company exchanged £75.0 million aggregate principal amount of 8½% Series B Senior Notes due in November 2009 (the "Sterling Series B Senior Notes") for all of the Sterling Senior Notes. The terms of the Sterling Series B Senior Notes are identical in all material respects to the Sterling Senior Notes. In October 2000, the Company exchanged £74.0 million aggregate principal amount of Sterling Series C Senior Notes (as defined below) for £74.0 million of the Sterling Series B Notes. The terms of the Sterling Series C Senior Notes are identical in all material respects to the Sterling Series B Senior Notes. As of February 28, 2005, the Company had outstanding £1.0 million (\$1.9 million) aggregate principal amount of Sterling Series B Senior Notes.

On May 15, 2000, the Company issued £80.0 million (\$120.0 million upon issuance) aggregate principal amount of 8½% Series C Senior Notes due November 2009 at an issuance price of £79.6 million (\$119.4 million upon issuance, net of \$0.6 million unamortized discount, with an effective interest rate of 8.6%) (the "Sterling Series C Senior Notes"). Interest on the Sterling Series C Senior Notes is payable semiannually on May 15 and November 15. As of February 28, 2005, the Company had outstanding £154.0 million (\$295.4 million, net of \$0.5 million unamortized discount) aggregate principal amount of Sterling Series C Senior Notes.

On February 21, 2001, the Company issued \$200.0 million aggregate principal amount of 8% Senior Notes due February 2008 (the "February 2001 Senior Notes"). Interest on the February 2001 Senior Notes is payable semiannually on February 15 and August 15. In July 2001, the Company exchanged \$200.0 million aggregate principal amount of 8%

Series B Senior Notes due February 2008 (the “February 2001 Series B Senior Notes”) for all of the February 2001 Senior Notes. The terms of the February 2001 Series B Senior Notes are identical in all material respects to the February 2001 Senior Notes. As of February 28, 2005, the Company had outstanding \$200.0 million aggregate principal amount of February 2001 Series B Senior Notes.

The senior notes described above are redeemable, in whole or in part, at the option of the Company at any time at a redemption price equal to 100% of the outstanding principal amount and a make whole payment based on the present value of the future payments at the adjusted Treasury rate or adjusted Gilt rate plus 50 basis points. The senior notes are unsecured senior obligations and rank equally in right of payment to all existing and future unsecured senior indebtedness of the Company. Certain of the Company’s significant operating subsidiaries guarantee the senior notes, on a senior basis.

SENIOR SUBORDINATED NOTES –

On March 4, 1999, the Company issued \$200.0 million aggregate principal amount of 8½% Senior Subordinated Notes due March 2009 (“Senior Subordinated Notes”). The Senior Subordinated Notes were redeemable at the option of the Company, in whole or in part, at any time on or after March 1, 2004. On February 10, 2004, the Company issued a Notice of Redemption for its Senior Subordinated Notes. On March 11, 2004, the Senior Subordinated Notes were redeemed with proceeds from the revolving credit facility under the Company’s then existing senior credit facility at 104.25% of par plus accrued interest. During the year ended February 28, 2005, in connection with this redemption, the Company recorded a charge of \$10.3 million in selling, general and administrative expenses for the call premium and the remaining unamortized financing fees associated with the original issuance of the Senior Subordinated Notes.

On January 23, 2002, the Company issued \$250.0 million aggregate principal amount of 8½% Senior Subordinated Notes due January 2012 (“January 2002 Senior Subordinated Notes”). Interest on the January 2002 Senior Subordinated Notes is payable semiannually on January 15 and July 15. The January 2002 Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 15, 2007. The January 2002 Senior Subordinated Notes are unsecured and subordinated to the prior payment in full of all senior indebtedness of the Company, which includes the senior credit facility. The January 2002 Senior Subordinated Notes are guaranteed, on a senior subordinated basis, by certain of the Company’s significant operating subsidiaries. As of February 28, 2005, the Company had outstanding \$250.0 million aggregate principal amount of January 2002 Senior Subordinated Notes.

TRUST INDENTURES –

The Company’s various Trust Indentures relating to the senior notes and senior subordinated notes contain certain covenants, including, but not limited to: (i) limitation on indebtedness; (ii) limitation on restricted payments; (iii) limitation on transactions with affiliates; (iv) limitation on senior subordinated indebtedness; (v) limitation on liens; (vi) limitation on sale of assets; (vii) limitation on issuance of guarantees of and pledges for indebtedness; (viii) restriction on transfer of assets; (ix) limitation on subsidiary capital stock; (x) limitation on dividends and other payment restrictions affecting subsidiaries; and (xi) restrictions on mergers, consolidations and the transfer of all or substantially all of the assets of the Company to another person. The limitation on indebtedness covenant is governed by a rolling four quarter fixed charge ratio requiring a specified minimum.

DEBT PAYMENTS –

Principal payments required under long-term debt obligations (excluding unamortized discount of \$0.5 million) during the next five fiscal years and thereafter are as follows:

(In thousands)

2006	\$ 68,094
2007	298,039
2008	321,707
2009	143,297
2010	450,952
Thereafter	1,991,169
	<u>\$3,273,258</u>

10. INCOME TAXES:

Income before income taxes was generated as follows:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Domestic	\$357,444	\$289,960	\$294,557
Foreign	74,530	54,437	40,379
	<u>\$431,974</u>	<u>\$344,397</u>	<u>\$334,936</u>

The income tax provision consisted of the following:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Current:			
Federal	\$ 70,280	\$ 68,125	\$ 79,472
State	15,041	13,698	13,807
Foreign	21,915	14,116	17,301
Total current	<u>107,236</u>	<u>95,939</u>	<u>110,580</u>
Deferred:			
Federal	52,030	18,843	16,290
State	4,507	6,180	2,502
Foreign	(8,263)	3,021	2,258
Total deferred	<u>48,274</u>	<u>28,044</u>	<u>21,050</u>
Income tax provision	<u>\$155,510</u>	<u>\$123,983</u>	<u>\$131,630</u>

The foreign provision for income taxes is based on foreign pretax earnings. Earnings of foreign subsidiaries would be subject to U.S. income taxation on repatriation to the U.S. The Company's consolidated financial statements fully provide for any related tax liability on amounts that may be repatriated.

Deferred tax assets and liabilities reflect the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income.

Significant components of deferred tax assets (liabilities) consist of the following:

	February 28, 2005	February 29, 2004
<i>(In thousands)</i>		
Deferred tax assets:		
Inventory	\$ 89,339	\$ 23,347
Employee benefits	32,988	20,696
Net operating losses	37,846	15,477
Insurance accruals	5,190	5,682
Unrealized foreign exchange	21,006	(542)
Foreign tax credit	13,397	8,600
Other accruals	20,628	24,248
Gross deferred tax assets	220,394	97,508
Valuation allowances	(4,628)	(2,712)
Deferred tax assets, net	215,766	94,796
Deferred tax liabilities:		
Property, plant and equipment	\$(165,625)	\$ (96,059)
Intangible assets	(240,766)	(147,271)
Derivative instruments	(27,250)	(17,341)
Investment in equity method investees	(53,760)	–
Provision for unremitted earnings	(4,892)	(11,147)
Total deferred tax liabilities	(492,293)	(271,818)
Deferred tax liabilities, net	(276,527)	(177,022)
Less – Current deferred tax assets	98,744	10,388
Long-term deferred assets	21,808	–
Current deferred tax liability	(7,193)	–
Long-term deferred tax liabilities, net	\$(389,886)	\$(187,410)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. Management considers the reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of any valuation allowances.

Operating loss carryforwards totaling \$120.0 million at February 28, 2005, are being carried forward in a number of U.S. and foreign jurisdictions where the Company is permitted to use tax operating losses from prior periods to reduce future taxable income. Of these operating loss carryforwards, \$26.1 million will expire in 2024 and \$94.0 million may be carried forward indefinitely. In addition, certain tax credits generated of \$13.5 million are available to offset future income taxes. These credits will expire, if not utilized, in 2012 through 2015.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FSP FAS 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. Although FSP FAS 109-2 is effective immediately, the Company is currently assessing the impact of guidance issued by the Treasury Department and the Internal Revenue Service on May 10, 2005, as well as the relevance of additional guidance expected to be issued. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional guidance.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 ("FSP FAS 109-1"), "Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." FSP FAS 109-1 clarifies that the deduction will be treated as a "special deduction" as described in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." As such, the special deduction has no effect on deferred tax assets and liabilities existing at the date of enactment. The impact of the deduction will be reported in the period in which the deduction is claimed.

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, the Company provides for additional tax expense based on probable outcomes of such matters. The Internal Revenue Service is currently examining tax returns for the years ended February 29, 2000, February 28, 2001, February 28, 2002, and February 28, 2003. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes the reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require use of cash. Favorable resolution would be recognized as a reduction to the effective tax rate in the year of resolution.

A reconciliation of the total tax provision to the amount computed by applying the statutory U.S. Federal income tax rate to income before provision for income taxes is as follows:

<i>For the Years Ended</i>	<i>February 28, 2005</i>		<i>February 29, 2004</i>		<i>February 28, 2003</i>	
	<i>Amount</i>	<i>% of Pretax Income</i>	<i>Amount</i>	<i>% of Pretax Income</i>	<i>Amount</i>	<i>% of Pretax Income</i>
<i>(In thousands)</i>						
Income tax provision at statutory rate	\$151,191	35.0	\$120,521	35.0	\$117,228	35.0
State and local income taxes, net of federal income tax benefit	12,706	2.9	13,032	3.8	10,601	3.2
Earnings of subsidiaries taxed at other than U.S. statutory rate	(5,024)	(1.1)	(12,170)	(3.5)	1,838	0.5
Miscellaneous items, net	(3,363)	(0.8)	2,600	0.7	1,963	0.6
	<u>\$155,510</u>	<u>36.0</u>	<u>\$123,983</u>	<u>36.0</u>	<u>\$131,630</u>	<u>39.3</u>

The effect of earnings of foreign subsidiaries includes the difference between the U.S. statutory rate and local jurisdiction tax rates, as well as the provision for incremental U.S. taxes on unremitted earnings of foreign subsidiaries offset by foreign tax credits and other foreign adjustments.

11. OTHER LIABILITIES:

The major components of other liabilities are as follows:

	<i>February 28, 2005</i>	<i>February 29, 2004</i>
<i>(In thousands)</i>		
Adverse grape contracts (Note 14)	\$145,958	\$ 83,464
Accrued pension liability	85,584	55,221
Other	60,037	46,304
	<u>\$291,579</u>	<u>\$184,989</u>

12. PROFIT SHARING AND RETIREMENT SAVINGS PLANS:

The Company's retirement and profit sharing plan, the Constellation Brands, Inc. 401(k) and Profit Sharing Plan (the "Plan"), covers substantially all U.S. employees, excluding those employees covered by collective bargaining agreements. The 401(k) portion of the Plan permits eligible employees to defer a portion of their compensation (as defined in the Plan) on a pretax basis. Participants may defer up to 50% of their compensation for the year, subject to limitations of the Plan. The Company makes a matching contribution of 50% of the first 6% of compensation a participant defers. The amount of the Company's contribution under the profit sharing portion of the Plan is a discretionary amount as determined by the Board of Directors on an annual basis, subject to limitations of the Plan. Company contributions under the Plan were \$13.0 million, \$11.6 million, and \$10.9 million for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively.

During the year ended February 29, 2004, in connection with the Hardy Acquisition, the Company acquired the BRL Hardy Superannuation Fund (now known as the Hardy Wine Company Superannuation Plan) (the "Hardy Plan") which covers substantially all salaried Australian employees. The Hardy

Plan has a defined benefit component and a defined contribution component. The Company also has a statutory obligation to provide a minimum defined contribution on behalf of any Australian employees who are not covered by the Hardy Plan. In addition, during the year ended February 29, 2004, the Company instituted a defined contribution plan that covers substantially all of its U.K. employees. Company contributions under the defined contribution component of the Hardy Plan, the Australian statutory obligation, and the U.K. defined contribution plan aggregated \$6.5 million and \$6.6 million for the years ended February 28, 2005, and February 29, 2004, respectively.

The Company also has defined benefit pension plans that cover certain of its non-U.S. employees. These consist of a Canadian plan, an U.K. plan and the defined benefit component of the Hardy Plan. During the year ended February 28, 2005, an amendment to the Canadian plan modifying pension benefits increased the pension benefit obligation by \$0.9 million. During the year ended February 29, 2004, the Company ceased future accruals for active employees under its U.K. plan. There were no curtailment charges arising from this event. The Company uses a December 31 measurement date for all of its plans. Net periodic benefit cost (income) reported in the Consolidated Statements of Income for these plans includes the following components:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Service cost	\$ 2,117	\$ 2,202	\$ 4,245
Interest cost	16,391	14,471	12,055
Expected return on plan assets	(17,250)	(15,155)	(14,639)
Amortization of prior service cost	9	9	8
Recognized net actuarial loss (gain)	2,530	2,019	843
Net periodic benefit cost (income)	<u>\$ 3,797</u>	<u>\$ 3,546</u>	<u>\$ 2,512</u>

The following table summarizes the funded status of the Company's defined benefit pension plans and the related amounts included in the Consolidated Balance Sheets:

	February 28, 2005	February 29, 2004
<i>(In thousands)</i>		
Change in benefit obligation:		
Benefit obligation as of March 1	\$301,608	\$220,686
Service cost	2,117	2,202
Interest cost	16,391	14,471
Plan participants' contributions	84	235
Actuarial loss	29,939	19,079
Acquisition	—	10,764
Plan amendment	884	—
Benefits paid	(12,769)	(11,013)
Foreign currency exchange rate changes	10,836	45,184
Benefit obligation as of the last day of February	\$349,090	\$301,608
Change in plan assets:		
Fair value of plan assets as of March 1	\$236,314	\$175,819
Actual return on plan assets	19,092	21,618
Acquisition	—	9,601
Plan participants' contributions	84	235
Employer contribution	3,186	3,983
Benefits paid	(12,769)	(11,013)
Foreign currency exchange rate changes	7,750	36,071
Fair value of plan assets as of the last day of February	\$253,657	\$236,314
Funded status of the plan as of the last day of February:		
Funded status	\$(95,433)	\$(65,294)
Employer contributions from measurement date to fiscal year end	759	—
Unrecognized prior service cost	927	18
Unrecognized actuarial loss	123,277	93,926
Net amount recognized	\$ 29,530	\$ 28,650
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid benefit cost	\$ 555	\$ 97
Accrued benefit liability	(85,584)	(55,221)
Intangible asset	927	18
Deferred tax asset	34,210	25,569
Accumulated other comprehensive loss	79,422	58,187
Net amount recognized	\$ 29,530	\$ 28,650

As of February 28, 2005, and February 29, 2004, the accumulated benefit obligation for all defined benefit pension plans was \$337.9 million and \$290.3 million, respectively. The following table summarizes the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for those pension plans with an accumulated benefit obligation in excess of plan assets:

	February 28, 2005	February 29, 2004
<i>(In thousands)</i>		
Projected benefit obligation	\$332,952	\$286,617
Accumulated benefit obligation	\$321,963	\$275,508
Fair value of plan assets	\$236,145	\$220,287

The increase in minimum pension liability included in AOCI for the years ended February 28, 2005, and February 29, 2004, were \$21.2 million and \$15.7 million, respectively.

The following table sets forth the weighted average assumptions used in developing the net periodic pension expense for the years ended February 28, 2005, and February 29, 2004:

For the Years Ended	February 28, 2005	February 29, 2004
Rate of return on plan assets	7.50%	7.32%
Discount rate	5.79%	5.85%
Rate of compensation increase	3.94%	4.16%

The following table sets forth the weighted average assumptions used in developing the benefit obligation as of February 28, 2005, and February 29, 2004:

	February 28, 2005	February 29, 2004
Discount rate	5.41%	5.57%
Rate of compensation increase	3.76%	3.34%

The Company's weighted average expected long-term rate of return on plan assets is 7.50%. The Company considers the historical level of long-term returns and the current level of expected long-term returns for each asset class, as well as the current and expected allocation of assets when developing its expected long-term rate of return on assets assumption. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the Company's portfolios.

The following table sets forth the weighted average asset allocations as of February 28, 2005, and February 29, 2004, by asset category:

Asset Category:	February 28, 2005	February 29, 2004
Equity securities	33.1%	32.9%
Debt securities	38.0%	40.0%
Real estate	0.5%	0.7%
Other	28.4%	26.4%
Total	100.0%	100.0%

For each of its Canadian, U.K. and Australian defined benefit plans, the Company employs an investment return approach whereby a mix of equities and fixed income investments are used (on a plan by plan basis) to maximize the long-term return of plan assets for a prudent level of risk. From time to time, the Company will target asset allocation on a plan by plan basis to enhance total return while balancing risks. The established weighted average target allocations across all of the Company's plans are approximately 40% fixed income securities, 35% equity securities, and 25% other. The other component results primarily from investments held by the Company's U.K. plan

and consists primarily of U.K. hedge funds which have characteristics of both equity and fixed income securities. Risk tolerance is established separately for each plan through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The individual investment portfolios contain a diversified blend of equity and fixed-income investments. Equity investments are diversified across each plan's local jurisdiction stocks as well as international stocks, and across multiple asset classifications, including growth, value, and large and small capitalizations. Investment risk is measured and monitored for each plan separately on an ongoing basis through periodic investment portfolio reviews and annual liability measures.

The Company expects to contribute \$5.5 million to its pension plans during the year ended February 28, 2006.

Benefit payments, which reflect expected future service, as appropriate, expected to be paid during the next ten fiscal years are as follows:

<i>(In thousands)</i>	
2006	\$11,996
2007	\$12,650
2008	\$12,585
2009	\$15,757
2010	\$13,754
2011–2015	\$77,881

13. POSTRETIREMENT BENEFITS:

The Company currently sponsors multiple unfunded post-retirement benefit plans for certain of its Constellation Beers and Spirits segment employees. During the year ended February 28, 2005, amendments to two of the unfunded post-retirement benefit plans, one modifying retiree contributions and the other modifying eligibility requirements and retiree contributions, decreased the postretirement benefit obligation by \$0.4 million. During the year ended February 29, 2004, an amendment to one of the unfunded postretirement benefit plans modifying the eligibility requirements and retiree contributions decreased the postretirement benefit obligation by \$0.6 million.

The Company uses a December 31 measurement date for all of its plans. The status of the plans is as follows:

	<i>February 28, 2005</i>	<i>February 29, 2004</i>
<i>(In thousands)</i>		
Change in benefit obligation:		
Benefit obligation as of March 1	\$ 5,460	\$ 4,471
Service cost	158	147
Interest cost	275	282
Benefits paid	(186)	(159)
Plan amendment	(383)	(645)
Actuarial loss (gain)	(499)	1,177
Foreign currency exchange rate changes	164	187
Benefit obligation as of the last day of February	\$ 4,989	\$ 5,460
Funded status as of the last day of February:		
Funded status	\$ (4,989)	\$ (5,460)
Unrecognized prior service cost	(666)	(311)
Unrecognized net loss (gain)	461	926
Accrued benefit liability	\$ (5,194)	\$ (4,845)

Net periodic benefit cost reported in the Consolidated Statements of Income includes the following components:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Service cost	\$158	\$147	\$135
Interest cost	275	282	260
Amortization of prior service cost	(21)	7	41
Recognized net actuarial gain (loss)	15	19	(20)
Net periodic benefit cost	\$427	\$455	\$416

The following table sets forth the weighted average assumptions used in developing the benefit obligation as of February 28, 2005, and February 29, 2004:

	<i>February 28, 2005</i>	<i>February 29, 2004</i>
Discount rate	5.86%	6.00%
Rate of compensation increase	3.50%	3.50%

The following table sets forth the weighted average assumptions used in developing the net periodic non-pension post-retirement expense for the years ended February 28, 2005, and February 29, 2004:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>
Discount rate	6.00%	6.46%
Rate of compensation increase	3.50%	4.00%

The following table sets forth the assumed health care cost trend rates as of February 28, 2005, and February 29, 2004:

	February 28, 2005		February 29, 2004	
	U.S. Plan	Non-U.S. Plan	U.S. Plan	Non-U.S. Plan
Health care cost trend rate assumed for next year	9.0%	9.7%	5.1%	10.5%
Rate to which the cost trend rate is assumed to decline to (the ultimate trend rate)	4.0%	4.7%	4.0%	4.7%
Year that the rate reaches the ultimate trend rate	2010	2011	2005	2011

Assumed health care trend rates could have a significant effect on the amount reported for health care plans. A one percent change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
<i>(In thousands)</i>		
Effect on total service and interest cost components	\$ 59	\$ (49)
Effect on postretirement benefit obligation	\$547	\$(473)

Benefit payments, which reflect expected future service, as appropriate, expected to be paid during the next ten fiscal years are as follows:

<i>(In thousands)</i>	
2006	\$ 335
2007	\$ 346
2008	\$ 161
2009	\$ 155
2010	\$ 160
2011–2015	\$2,444

14. COMMITMENTS AND CONTINGENCIES: OPERATING LEASES –

Step rent provisions, escalation clauses, capital improvement funding and other lease concessions, when present in the Company's leases, are taken into account in computing the minimum lease payments. The minimum lease payments for the Company's operating leases are recognized on a straight-line basis over the minimum lease term. Future payments under noncancelable operating leases having initial or remaining terms of one year or more are as follows during the next five fiscal years and thereafter:

<i>(In thousands)</i>	
2006	\$ 52,952
2007	52,315
2008	38,779
2009	31,515
2010	31,545
Thereafter	201,115
	<u>\$408,221</u>

Rental expense was \$47.4 million, \$41.0 million, and \$25.3 million for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively.

PURCHASE COMMITMENTS AND CONTINGENCIES –

The Company has agreements with suppliers to purchase various spirits of which certain agreements are denominated in British pound sterling. The maximum future obligation under these agreements, based upon exchange rates at February 28, 2005, aggregate \$27.2 million for contracts expiring through December 2012.

All of the Company's imported beer products are marketed and sold pursuant to exclusive distribution agreements from the suppliers of these products. The Company's agreement to distribute Corona Extra and its other Mexican beer brands exclusively throughout 25 primarily western U.S. states expires in December 2006, with automatic five year renewals thereafter, subject to compliance with certain performance criteria and other terms under the agreement. The remaining agreements expire through December 2008. Prior to their expiration, these agreements may be terminated if the Company fails to meet certain performance criteria. At February 28, 2005, the Company believes it is in compliance with all of its material distribution agreements and, given the Company's long-term relationships with its suppliers, the Company does not believe that these agreements will be terminated.

In connection with previous acquisitions as well as with the Hardy Acquisition and Robert Mondavi acquisition, the Company has assumed grape purchase contracts with certain growers and suppliers. In addition, the Company has entered into other grape purchase contracts with various growers and suppliers in the normal course of business. Under the grape purchase contracts, the Company is committed to purchase all grape production yielded from a specified number of acres for a period of time from one to fifteen years. The actual tonnage and price of grapes that must be purchased by the Company will vary each year depending on certain factors, including weather, time of harvest, overall market conditions and the agricultural practices and location of the growers and suppliers under contract. The Company purchased \$370.2 million and \$284.0 million of grapes under contracts during the years ended February 28, 2005, and February 29, 2004, respectively. Based on current production yields and published grape prices, the Company estimates that the aggregate purchases under these contracts over the remaining terms of the contracts will be \$2,499.7 million.

In connection with previous acquisitions as well as with the Hardy Acquisition and Robert Mondavi acquisition, the Company established a liability for the estimated loss on firm purchase commitments assumed at the time of acquisition. As of February 28, 2005, the remaining balance on this liability is \$212.7 million.

The Company's aggregate obligations under bulk wine purchase contracts will be \$132.1 million over the remaining terms of the contracts which extend through fiscal 2012.

The Company's aggregate obligations under sweetener purchase contracts will be \$16.0 million over the remaining terms of the contracts which extend through fiscal 2007.

In connection with the Hardy Acquisition, the Company assumed certain processing contracts which commit the Company to utilize outside services to process and/or package a minimum volume quantity. In addition, the Company entered into a new processing contract during the year ended February 29, 2004, utilizing outside services to process a minimum volume of brandy at prices which are dependent on the processing ingredients provided by the Company. The Company's aggregate obligations under these processing contracts will be \$80.0 million over the remaining terms of the contracts which extend through December 2014.

EMPLOYMENT CONTRACTS –

The Company has employment contracts with certain of its executive officers and certain other management personnel with either automatic one year renewals or an indefinite term of employment unless terminated by either party. These employment contracts provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. These employment contracts also provide for severance payments in the event of specified termination of employment. In addition, the Company has employment arrangements with certain other management personnel which provide for severance payments in the event of specified termination of employment. As of February 28, 2005, the aggregate commitment for future compensation and severance, excluding incentive bonuses, was \$18.3 million, none of which was accruable at that date.

EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS –

Approximately 29.1% of the Company's full-time employees are covered by collective bargaining agreements at February 28, 2005. Agreements expiring within one year cover approximately 12.3% of the Company's full-time employees.

LEGAL MATTERS –

In the course of its business, the Company is subject to litigation from time to time. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management such liability will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

15. STOCKHOLDERS' EQUITY:

COMMON STOCK –

The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. Class B Convertible Common Stock shares are convertible into shares of Class A Common Stock on a one-to-one basis at any time at the option of the holder. Holders of Class B Convertible Common Stock are entitled to ten votes per share. Holders of Class A Common Stock are entitled to one vote per share and a cash dividend premium. If the Company pays a cash dividend on Class B Convertible Common Stock, each share of Class A Common Stock will receive an amount at least ten percent greater than the amount of the cash dividend per share paid on Class B Convertible Common Stock. In addition, the Board of Directors may declare and pay a dividend on Class A Common Stock without paying any dividend on Class B Convertible Common Stock. However, under the terms of the Company's senior credit facility, the Company is currently constrained from paying cash dividends on its common stock. In addition, the indentures for the Company's outstanding senior notes and senior subordinated notes may restrict the payment of cash dividends on its common stock under certain circumstances.

In July 2002, the stockholders of the Company approved an increase in the number of authorized shares of Class A Common Stock from 120,000,000 shares to 275,000,000 shares and Class B Convertible Common Stock from 20,000,000 shares to 30,000,000 shares, thereby increasing the aggregate number of authorized shares of the Company to 306,000,000 shares.

At February 28, 2005, there were 195,061,966 shares of Class A Common Stock and 23,960,260 shares of Class B Convertible Common Stock outstanding, net of treasury stock.

STOCK REPURCHASE AUTHORIZATION –

In June 1998, the Company's Board of Directors authorized the repurchase of up to \$100.0 million of its Class A Common Stock and Class B Convertible Common Stock. The Company may finance such purchases, which will become treasury shares, through cash generated from operations or through the senior credit facility. No shares were repurchased under this program during the years ended February 28, 2005, February 29, 2004, and February 28, 2003.

PREFERRED STOCK –

During the year ended February 29, 2004, the Company issued 5.75% Series A Mandatory Convertible Preferred Stock (“Preferred Stock”) (see “Equity Offerings” discussion below). Dividends are cumulative and payable quarterly, if declared, in cash, shares of the Company’s Class A Common Stock, or a combination thereof, at the discretion of the Company. Dividends are payable, if declared, on the first business day of March, June, September, and December of each year, commencing on December 1, 2003. On September 1, 2006, the automatic conversion date, each share of Preferred Stock will automatically convert into, subject to certain anti-dilution adjustments, between 58.552 and 71.432 shares of the Company’s Class A Common Stock, depending on the then applicable market price of the Company’s Class A Common Stock, in accordance with the following table:

<i>Applicable market price</i>	<i>Conversion rate</i>
Less than or equal to \$14.00	71.432 shares
Between \$14.00 and \$17.08	71.432 to 58.552 shares
Equal to or greater than \$17.08	58.552 shares

The applicable market price is the average of the closing prices per share of the Company’s Class A Common Stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the applicable conversion date. At any time prior to September 1, 2006, holders may elect to convert each share of Preferred Stock, subject to certain anti-dilution adjustments, into 58.552 shares of the Company’s Class A Common Stock. If the closing market price of the Company’s Class A Common Stock exceeds \$25.62 for at least 20 trading days within a period of 30 consecutive trading days, the Company may elect, subject to certain limitations and anti-dilution adjustments, to cause the conversion of all, but not less than all, of the then outstanding shares of Preferred Stock into shares of the Company’s Class A Common Stock at a conversion rate of 58.552 shares of the Company’s Class A Common Stock. In order for the Company to cause the early conversion of the Preferred Stock, the Company must pay all accrued and unpaid dividends on the Preferred Stock as well as the present value of all remaining dividend payments through and including September 1, 2006. If the Company is involved in a merger in which at least 30% of the consideration for all or any class of the Company’s common stock consists of cash or cash equivalents, then on or after the date of such merger, each holder will have the right to convert each share of Preferred Stock into the number of shares of the Company’s Class A Common Stock applicable on the automatic conversion date. The Preferred Stock ranks senior in right of payment to all of the Company’s common stock and has a liquidation preference of \$1,000 per share, plus accrued and unpaid dividends.

As of February 28, 2005, 170,500 shares of Preferred Stock were outstanding and \$2.5 million of dividends were accrued.

EQUITY OFFERINGS –

During July 2003, the Company completed a public offering of 19,600,000 shares of its Class A Common Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$261.2 million. In addition, the Company also completed a public offering of 170,500 shares of its 5.75% Series A Mandatory Convertible Preferred Stock resulting in net proceeds to the Company, after deducting underwriting discounts and expenses, of \$164.9 million. The Class A Common Stock offering and the Preferred Stock offering are referred to together as the “2003 Equity Offerings.” The majority of the net proceeds from the 2003 Equity Offerings were used to repay the Company’s then existing bridge loans that were incurred to partially finance the Hardy Acquisition. The remaining proceeds were used to repay term loan borrowings under the Company’s then existing senior credit facility.

LONG-TERM STOCK INCENTIVE PLAN –

Under the Company’s Long-Term Stock Incentive Plan, non-qualified stock options, stock appreciation rights, restricted stock and other stock-based awards may be granted to employees, officers and directors of the Company. The aggregate number of shares of the Company’s Class A Common Stock available for awards under the Company’s Long-Term Stock Incentive Plan is 80,000,000 shares. The exercise price, vesting period and term of nonqualified stock options granted are established by the committee administering the plan (the “Committee”). Grants of stock appreciation rights, restricted stock and other stock-based awards may contain such vesting, terms, conditions and other requirements as the Committee may establish. During the years ended February 28, 2005, February 29, 2004, and February 28, 2003, no stock appreciation rights were granted. During the year ended February 28, 2005, 5,330 shares of restricted Class A Common Stock were granted at a grant date fair value of \$18.86 per share. No restricted stock was granted during the year ended February 29, 2004. During the year ended February 28, 2003, 14,160 shares of restricted Class A Common Stock were granted at a grant date fair value of \$14.21 per share.

INCENTIVE STOCK OPTION PLAN –

Under the Company’s Incentive Stock Option Plan, incentive stock options may be granted to employees, including officers, of the Company. Grants, in the aggregate, may not exceed 8,000,000 shares of the Company’s Class A Common Stock. The exercise price of any incentive stock option may not be less than the fair market value of the Company’s Class A Common Stock on the date of grant. The vesting period and term of incentive stock options granted are established by the Committee. The maximum term of incentive stock options is ten years.

A summary of stock option activity under the Company's Long-Term Stock Incentive Plan and the Incentive Stock Option Plan is as follows:

	<i>Shares Under Option</i>	<i>Weighted Average Exercise Price</i>	<i>Options Exercisable</i>	<i>Weighted Average Exercise Price</i>
Balance, February 28, 2002	24,955,616	\$ 7.06	15,130,398	\$ 6.16
Options granted	2,486,400	\$13.60		
Options exercised	(4,192,122)	\$ 6.72		
Options forfeited/canceled	(434,032)	\$10.03		
Balance, February 28, 2003	22,815,862	\$ 7.78	16,691,710	\$ 6.79
Options granted	5,632,714	\$11.93		
Options exercised	(5,224,622)	\$ 6.94		
Options forfeited/canceled	(649,008)	\$12.80		
Balance, February 29, 2004	22,574,946	\$ 8.86	17,642,596	\$ 7.90
Options granted	6,826,050	\$18.31		
Options exercised	(5,421,978)	\$ 8.93		
Options forfeited/canceled	(378,268)	\$15.10		
Balance, February 28, 2005	<u>23,600,750</u>	\$11.48	20,733,345	\$10.45

The following table summarizes information about stock options outstanding at February 28, 2005:

<i>Range of Exercise Prices</i>	<i>Options Outstanding</i>			<i>Options Exercisable</i>	
	<i>Number Outstanding</i>	<i>Weighted Average Remaining Contractual Life</i>	<i>Weighted Average Exercise Price</i>	<i>Number Exercisable</i>	<i>Weighted Average Exercise Price</i>
\$ 2.13–\$ 6.13	2,542,412	1.8 years	\$ 4.05	2,542,412	\$ 4.05
\$ 6.20–\$10.43	8,998,404	5.4 years	\$ 8.15	8,918,244	\$ 8.16
\$11.44–\$16.19	5,683,648	7.8 years	\$12.31	4,878,253	\$12.36
\$16.63–\$24.73	6,376,286	9.3 years	\$18.40	4,394,436	\$16.69
	<u>23,600,750</u>	6.7 years	\$11.48	<u>20,733,345</u>	\$10.45

The weighted average fair value of options granted during the years ended February 28, 2005, February 29, 2004, and February 28, 2003, was \$7.20, \$4.87, and \$6.09, respectively. The fair value of options is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 3.6%, 3.2%, and 5.0% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively; volatility of 33.6%, 35.7%, and 36.7% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively; and expected option life of 6.0 years, 6.2 years, and 6.0 years for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively. The dividend yield was 0% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003. Forfeitures are recognized as they occur.

EMPLOYEE STOCK PURCHASE PLANS –

The Company has a stock purchase plan under which 9,000,000 shares of Class A Common Stock may be issued. Under the terms of the plan, eligible employees may purchase shares of the Company's Class A Common Stock through payroll deductions. The purchase price is the lower of 85% of the fair market value of the stock on the first or last day of the purchase period. During the years ended February 28, 2005, February 29, 2004, and February 28, 2003, employees purchased 274,106, 275,970 shares, and 276,608 shares, respectively.

The weighted average fair value of purchase rights granted during the years ended February 28, 2005, February 29, 2004, and February 28, 2003, was \$4.98, \$3.30, and \$3.53, respectively. The fair value of purchase rights is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 2.2%, 1.0%, and 1.4% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively; volatility of 24.5%, 22.3%, and 40.4% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively; and expected purchase right life of 0.5 years for the years ended February 28, 2005, February 29, 2004, and February 28, 2003. The dividend yield was 0% for the years ended February 28, 2005, February 29, 2004, and February 28, 2003.

The Company has a stock purchase plan under which 2,000,000 shares of the Company's Class A Common Stock may be issued to eligible employees and directors of the Company's United Kingdom subsidiaries. Under the terms of the plan, participants may purchase shares of the Company's Class A Common Stock through payroll deductions. The purchase price may be no less than 80% of the closing price of the stock on the day the purchase price is fixed by the committee administering the plan. During the years ended February 28, 2005, February 29, 2004, and February 28, 2003, employees purchased 74,164, 55,582, and 1,516 shares, respectively. During the years ended February 28, 2005, February 29, 2004, and February 28, 2003, there were no purchase rights granted.

16. EARNINGS PER COMMON SHARE:

Earnings per common share are as follows:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands, except per share data)</i>			
Net income	\$276,464	\$220,414	\$203,306
Dividends on preferred stock	(9,804)	(5,746)	—
Income available to common stockholders	\$266,660	\$214,668	\$203,306
Weighted average common shares outstanding – basic:			
Class A Common Stock	191,489	177,267	155,533
Class B Common Stock	24,043	24,137	24,179
Total weighted average common shares outstanding – basic	215,532	201,404	179,712
Stock options	7,545	6,628	5,781
Preferred stock	9,983	5,865	—
Weighted average common shares outstanding – diluted	233,060	213,897	185,493
Earnings per common share – basic:			
Class A Common Stock	\$ 1.25	\$ 1.08	\$ 1.15
Class B Common Stock	\$ 1.14	\$ 0.98	\$ 1.04
Earnings per common share – diluted	\$ 1.19	\$ 1.03	\$ 1.10

Stock options to purchase 1.6 million, 0.2 million and 2.2 million shares of Class A Common Stock at a weighted average price per share of \$23.27, \$15.55 and \$13.71 were outstanding during the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively, but were not included in the computation of the diluted earnings per common share because the stock options' exercise price was greater than the average market price of the Class A Common Stock for the respective periods.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

Accumulated other comprehensive loss, net of tax effects, includes the following components:

	<i>Foreign Currency Translation Adjustments</i>	<i>Net Unrealized Gains on Derivatives</i>	<i>Unrealized Loss on Marketable Equity Securities</i>	<i>Minimum Pension Liability Adjustment</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>
<i>(In thousands)</i>					
Balance, February 29, 2004	\$393,972	\$36,949	\$(432)	\$(58,187)	\$372,302
Current period change	79,977	367	432	(21,235)	59,541
Balance, February 28, 2005	\$473,949	\$37,316	\$ —	\$(79,422)	\$431,843

18. SIGNIFICANT CUSTOMERS AND CONCENTRATION OF CREDIT RISK:

Sales to the five largest customers represented 21.5%, 20.6%, and 21.2% of the Company's sales for the years ended February 28, 2005, February 29, 2004, and February 28, 2003, respectively. No single customer was responsible for greater than 10% of sales during these years. Accounts receivable from the Company's largest customer, Southern Wine and Spirits, represented 10.2%, 8.3%, and 11.4% of the Company's total accounts receivable as of February 28, 2005, February 29, 2004, and February 28, 2003, respectively. Sales to the Company's five largest customers are expected to continue to represent a significant portion of the Company's revenues. The Company's arrangements with certain of its customers may, generally, be terminated by either party with prior notice. The Company performs ongoing credit evaluations of its customers' financial position, and management of the Company is of the opinion that any risk of significant loss is reduced due to the diversity of customers and geographic sales area.

19. RESTRUCTURING AND RELATED CHARGES:

For the year ended February 28, 2005, the Company recorded \$7.6 million of restructuring and related charges associated with the restructuring plans of the Constellation Wines segment. Restructuring and related charges resulted from (i) the further realignment of business operations as previously announced during the year ended February 29, 2004, (ii) the Company's decision during the year ended February 29, 2004, to exit the commodity concentrate product line in the U.S. (collectively, the "Fiscal 2004 Plan"), and (iii) the Company's decision to restructure and integrate the operations of Robert Mondavi (the "Robert Mondavi Plan"). The Company is in the process of refining the Robert Mondavi Plan which will be finalized during the Company's year ending February 28, 2006. For the year ended February 29, 2004, the Company recorded \$31.2 million of restructuring and related charges associated with the Fiscal 2004 Plan. In addition, in connection with the Company's decision to exit the commodity concentrate product

line in the U.S., the Company recorded a write-down of concentrate inventory of \$16.8 million, which was recorded in cost of product sold. For the year ended February 28, 2003, the Company recorded restructuring and related charges associated with an asset impairment charge of \$4.8 million in connection with two of Constellation Wines segment's production facilities (see Note 1).

The restructuring and related charges of \$7.6 million for the year ended February 28, 2005, included \$3.8 million of employee termination benefit costs (net of reversal of prior accruals of \$0.2 million), \$1.5 million of contract termination

costs, \$1.0 million of facility consolidation and relocation costs, and \$1.3 million of other related charges.

The Company estimates that the completion of the restructuring actions will include (i) a total of \$14.1 million of employee termination benefit costs through February 28, 2006, of which \$10.5 million has been incurred through February 28, 2005, (ii) a total of \$19.2 million of contract termination costs through February 28, 2005, all of which has been incurred through February 28, 2005, and (iii) a total of \$4.2 million of facility consolidation and relocation costs through February 28, 2006, of which \$2.9 million has been incurred through February 28, 2005.

The following table illustrates the changes in the restructuring liability balance since February 29, 2004:

	<i>Employee Termination Benefit Costs</i>	<i>Contract Termination Costs</i>	<i>Facility Consolidation/ Relocation Costs</i>	<i>Total</i>
<i>(In thousands)</i>				
Balance, February 29, 2004	\$ 1,539	\$ 1,048	\$ —	\$ 2,587
Robert Mondavi acquisition	25,094	23,215	752	49,061
Restructuring charges	3,920	1,525	1,008	6,453
Reversal of prior accruals	(228)	—	—	(228)
Cash expenditures	(15,046)	(2,584)	(1,017)	(18,647)
Foreign currency adjustments	(9)	—	—	(9)
Balance, February 28, 2005	\$ 15,270	\$23,204	\$ 743	\$ 39,217

20. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of February 28, 2005, and February 29, 2004, the condensed consolidating statements of income and cash flows for each of the three years in the period ended February 28, 2005, for the Company, the parent company, the combined subsidiaries of the Company which guarantee the Company's senior notes and senior subordinated notes ("Subsidiary Guarantors") and the combined subsidiaries of the Company which are not Subsidiary Guarantors, primarily Matthew Clark and Hardy and their subsidiaries, which are included in the Constellation Wines segment ("Subsidiary Nonguarantors"). The Subsidiary Guarantors are wholly

owned and the guarantees are full, unconditional, joint and several obligations of each of the Subsidiary Guarantors. Separate financial statements for the Subsidiary Guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 and include the recently adopted accounting pronouncements described in Note 2. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances.

(In thousands)

Condensed Consolidating Balance Sheet at February 28, 2005

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Current assets:					
Cash and cash investments	\$ -	\$ 10,095	\$ 7,540	\$ -	\$ 17,635
Accounts receivable, net	132,997	293,588	423,057	-	849,642
Inventories	35,719	943,711	637,556	(9,251)	1,607,735
Prepaid expenses and other current assets	41,515	163,910	53,598	-	259,023
Intercompany (payable) receivable	450,781	(1,111,951)	661,170	-	-
Total current assets	661,012	299,353	1,782,921	(9,251)	2,734,035
Property, plant and equipment, net	37,476	884,690	674,201	-	1,596,367
Investments in subsidiaries	4,961,521	1,844,354	-	(6,805,875)	-
Goodwill	-	1,242,132	940,537	-	2,182,669
Intangible assets, net	-	587,075	358,575	-	945,650
Other assets, net	28,559	221,642	95,250	-	345,451
Total assets	\$5,688,568	\$5,079,246	\$3,851,484	\$(6,815,126)	\$7,804,172
Current liabilities:					
Notes payable to banks	\$ 14,000	\$ -	\$ 2,475	\$ -	\$ 16,475
Current maturities of long-term debt	60,068	4,307	3,719	-	68,094
Accounts payable	4,237	146,116	194,901	-	345,254
Accrued excise taxes	13,633	41,070	19,653	-	74,356
Other accrued expenses and liabilities	146,837	191,438	298,529	(2,896)	633,908
Total current liabilities	238,775	382,931	519,277	(2,896)	1,138,087
Long-term debt, less current maturities	3,167,852	9,089	27,766	-	3,204,707
Deferred income taxes	(17,255)	377,423	29,718	-	389,886
Other liabilities	1,101	126,173	164,305	-	291,579
Stockholders' equity:					
Preferred stock	2	-	-	-	2
Class A and Class B common stock	2,288	6,443	141,583	(148,026)	2,288
Additional paid-in capital	1,097,177	2,301,961	2,498,737	(4,800,698)	1,097,177
Retained earnings	1,285,762	1,715,182	141,969	(1,866,060)	1,276,853
Accumulated other comprehensive income (loss)	(58,884)	160,044	328,129	2,554	431,843
Treasury stock and other	(28,250)	-	-	-	(28,250)
Total stockholders' equity	2,298,095	4,183,630	3,110,418	(6,812,230)	2,779,913
Total liabilities and stockholders' equity	\$5,688,568	\$5,079,246	\$3,851,484	\$(6,815,126)	\$7,804,172

Condensed Consolidating Balance Sheet at February 29, 2004

Current assets:					
Cash and cash investments	\$ 1,048	\$ 4,664	\$ 31,424	\$ -	\$ 37,136
Accounts receivable, net	137,422	145,152	353,336	-	635,910
Inventories	9,922	696,928	561,900	(7,372)	1,261,378
Prepaid expenses and other current assets	8,734	72,788	55,525	-	137,047
Intercompany (payable) receivable	(304,555)	(253,680)	558,235	-	-
Total current assets	(147,429)	665,852	1,560,420	(7,372)	2,071,471
Property, plant and equipment, net	33,722	426,152	637,488	-	1,097,362
Investments in subsidiaries	4,270,871	1,757,700	-	(6,028,571)	-
Goodwill	-	636,597	904,040	-	1,540,637
Intangible assets, net	-	396,153	348,825	-	744,978
Other assets, net	36,041	2,146	66,038	-	104,225
Total assets	\$4,193,205	\$3,884,600	\$3,516,811	\$(6,035,943)	\$5,558,673
Current liabilities:					
Notes payable to banks	\$ -	\$ -	\$ 1,792	\$ -	\$ 1,792
Current maturities of long-term debt	260,061	3,949	3,235	-	267,245
Accounts payable	33,631	67,459	169,201	-	270,291
Accrued excise taxes	8,005	15,344	25,116	-	48,465
Other accrued expenses and liabilities	151,534	23,352	267,123	-	442,009
Total current liabilities	453,231	110,104	466,467	-	1,029,802
Long-term debt, less current maturities	1,739,221	8,510	31,122	-	1,778,853
Deferred income taxes	56,815	119,704	10,891	-	187,410
Other liabilities	6,209	21,646	157,134	-	184,989
Stockholders' equity:					
Preferred stock	2	-	-	-	2
Class A and Class B common stock	2,234	6,443	141,573	(148,016)	2,234
Additional paid-in capital	1,022,931	1,977,179	2,418,614	(4,395,793)	1,022,931
Retained earnings	1,017,565	1,431,384	53,378	(1,492,134)	1,010,193
Accumulated other comprehensive income (loss)	(74,960)	209,630	237,632	-	372,302
Treasury stock and other	(30,043)	-	-	-	(30,043)
Total stockholders' equity	1,937,729	3,624,636	2,851,197	(6,035,943)	2,377,619
Total liabilities and stockholders' equity	\$4,193,205	\$3,884,600	\$3,516,811	\$(6,035,943)	\$5,558,673

	<i>Parent Company</i>	<i>Subsidiary Guarantors</i>	<i>Subsidiary Nonguarantors</i>	<i>Eliminations</i>	<i>Consolidated</i>
<i>(In thousands)</i>					
Condensed Consolidating Statement of Income for the Year Ended February 28, 2005					
Gross sales	\$ 823,873	\$ 2,585,660	\$ 2,563,199	\$(832,869)	\$ 5,139,863
Less – excise taxes	(148,269)	(435,984)	(467,972)	–	(1,052,225)
Net sales	675,604	2,149,676	2,095,227	(832,869)	4,087,638
Cost of product sold	(547,882)	(1,502,234)	(1,724,195)	827,262	(2,947,049)
Gross profit	127,722	647,442	371,032	(5,607)	1,140,589
Selling, general and administrative expenses	(155,687)	(217,967)	(182,040)	–	(555,694)
Acquisition-related integration costs	–	(9,421)	–	–	(9,421)
Restructuring and related charges	–	(4,203)	(3,375)	–	(7,578)
Operating (loss) income	(27,965)	415,851	185,617	(5,607)	567,896
Gain on change in fair value of derivative instruments	–	–	–	–	–
Equity in earnings of equity method investees	282,858	107,970	(115)	(388,960)	1,753
Interest income (expense), net	21,425	(125,226)	(33,874)	–	(137,675)
Income before income taxes	276,318	398,595	151,628	(394,567)	431,974
Benefit from (provision for) income taxes	1,683	(114,797)	(46,467)	4,071	(155,510)
Net income	278,001	283,798	105,161	(390,496)	276,464
Dividends on preferred stock	(9,804)	–	–	–	(9,804)
Income available to common stockholders	\$ 268,197	\$ 283,798	\$ 105,161	\$(390,496)	\$ 266,660
Condensed Consolidating Statement of Income for the Year Ended February 29, 2004					
Gross sales	\$ 814,042	\$ 2,276,747	\$ 1,866,165	\$(487,684)	\$ 4,469,270
Less – excise taxes	(143,964)	(417,130)	(355,747)	–	(916,841)
Net sales	670,078	1,859,617	1,510,418	(487,684)	3,552,429
Cost of product sold	(553,391)	(1,291,532)	(1,212,105)	480,387	(2,576,641)
Gross profit	116,687	568,085	298,313	(7,297)	975,788
Selling, general and administrative expenses	(115,163)	(171,036)	(171,078)	–	(457,277)
Acquisition-related integration costs	–	–	–	–	–
Restructuring charges	–	(40,567)	9,413	–	(31,154)
Operating income	1,524	356,482	136,648	(7,297)	487,357
Gain on change in fair value of derivative instruments	1,181	–	–	–	1,181
Equity in earnings of equity method investees	215,775	90,157	2	(305,392)	542
Interest income (expense), net	15,945	(154,914)	(5,714)	–	(144,683)
Income before income taxes	234,425	291,725	130,936	(312,689)	344,397
Provision for income taxes	(6,714)	(75,950)	(41,319)	–	(123,983)
Net income	227,711	215,775	89,617	(312,689)	220,414
Dividends on preferred stock	(5,746)	–	–	–	(5,746)
Income available to common stockholders	\$ 221,965	\$ 215,775	\$ 89,617	\$(312,689)	\$ 214,668
Condensed Consolidating Statement of Income for the Year Ended February 28, 2003					
Gross sales	\$ 817,458	\$ 1,989,490	\$ 1,145,520	\$(369,386)	\$ 3,583,082
Less – excise taxes	(148,129)	(412,022)	(291,319)	–	(851,470)
Net sales	669,329	1,577,468	854,201	(369,386)	2,731,612
Cost of product sold	(558,811)	(1,088,899)	(692,558)	369,371	(1,970,897)
Gross profit	110,518	488,569	161,643	(15)	760,715
Selling, general and administrative expenses	(109,576)	(146,037)	(95,380)	–	(350,993)
Acquisition-related integration costs	–	–	–	–	–
Restructuring charges	–	(4,764)	–	–	(4,764)
Operating income	942	337,768	66,263	(15)	404,958
Gain on change in fair value of derivative instruments	23,129	–	–	–	23,129
Equity in earnings of equity method investees	186,448	55,129	–	(229,341)	12,236
Interest income (expense), net	11,648	(114,051)	(2,984)	–	(105,387)
Income before income taxes	222,167	278,846	63,279	(229,356)	334,936
Provision for income taxes	(18,846)	(92,398)	(20,386)	–	(131,630)
Net income	203,321	186,448	42,893	(229,356)	203,306
Dividends on preferred stock	–	–	–	–	–
Income available to common stockholders	\$ 203,321	\$ 186,448	\$ 42,893	\$(229,356)	\$ 203,306

(In thousands)

Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2005

	<i>Parent Company</i>	<i>Subsidiary Guarantors</i>	<i>Subsidiary Nonguarantors</i>	<i>Eliminations</i>	<i>Consolidated</i>
Net cash (used in) provided by operating activities	\$ (5,108)	\$ 213,887	\$ 111,921	\$ –	\$ 320,700
Cash flows from investing activities:					
Purchases of businesses, net of cash acquired	(1,035,086)	(8,485)	(8,900)	–	(1,052,471)
Purchases of property, plant and equipment	(7,301)	(45,839)	(66,524)	–	(119,664)
Investment in equity method investee	–	–	(86,121)	–	(86,121)
Payment of accrued earn-out amount	–	(2,618)	–	–	(2,618)
Proceeds from sale of marketable equity securities	–	–	14,359	–	14,359
Proceeds from sale of assets	–	181	13,590	–	13,771
Proceeds from sale of equity method investment	–	9,884	–	–	9,884
Proceeds from sale of business	–	–	–	–	–
Net cash used in investing activities	(1,042,387)	(46,877)	(133,596)	–	(1,222,860)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	2,400,000	–	–	–	2,400,000
Exercise of employee stock options	48,241	–	–	–	48,241
Proceeds from employee stock purchases	4,690	–	–	–	4,690
Principal payments of long-term debt	(1,179,562)	(302,189)	(6,935)	–	(1,488,686)
Net proceeds (repayment) of notes payable	14,000	(60,000)	142	–	(45,858)
Payment of issuance costs of long-term debt	(24,403)	–	–	–	(24,403)
Payment of preferred stock dividends	(9,804)	–	–	–	(9,804)
Intercompany financings, net	(206,756)	200,891	5,865	–	–
Proceeds from equity offerings, net of fees	–	–	–	–	–
Net cash provided by (used in) financing activities	1,046,406	(161,298)	(928)	–	884,180
Effect of exchange rate changes on cash and cash investments	41	(281)	(1,281)	–	(1,521)
Net (decrease) increase in cash and cash investments	(1,048)	5,431	(23,884)	–	(19,501)
Cash and cash investments, beginning of year	1,048	4,664	31,424	–	37,136
Cash and cash investments, end of year	\$ –	\$ 10,095	\$ 7,540	\$ –	\$ 17,635

Condensed Consolidating Statement of Cash Flows for the Year Ended February 29, 2004

Net cash provided by (used in) operating activities	\$ 397,785	\$ 115,791	\$ (173,269)	\$ –	\$ 340,307
Cash flows from investing activities:					
Purchases of businesses, net of cash acquired	–	(1,069,470)	–	–	(1,069,470)
Purchases of property, plant and equipment	(25,063)	(19,982)	(60,049)	–	(105,094)
Investment in equity method investee	–	–	–	–	–
Payment of accrued earn-out amount	–	(2,035)	–	–	(2,035)
Proceeds from sale of marketable equity securities	–	–	849	–	849
Proceeds from sale of assets	–	11,396	2,053	–	13,449
Proceeds from sale of equity method investment	–	–	–	–	–
Proceeds from sale of business	–	–	3,814	–	3,814
Net cash used in investing activities	(25,063)	(1,080,091)	(53,333)	–	(1,158,487)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	1,600,000	–	–	–	1,600,000
Exercise of employee stock options	36,017	–	–	–	36,017
Proceeds from employee stock purchases	3,481	–	–	–	3,481
Intercompany financing activities, net	(1,474,100)	776,442	697,658	–	–
Principal payments of long-term debt	(885,359)	(23,394)	(373,521)	–	(1,282,274)
Net (repayment of) proceeds from notes payable	(2,000)	(1,400)	2,287	–	(1,113)
Payment of issuance costs of long-term debt	(33,748)	–	–	–	(33,748)
Payment of preferred stock dividends	(3,295)	–	–	–	(3,295)
Proceeds from equity offerings, net of fees	426,086	–	–	–	426,086
Net cash (used in) provided by financing activities	(332,918)	751,648	326,424	–	745,154
Effect of exchange rate changes on cash and cash investments	(40,182)	216,068	(79,534)	–	96,352
Net (decrease) increase in cash and cash investments	(378)	3,416	20,288	–	23,326
Cash and cash investments, beginning of year	1,426	1,248	11,136	–	13,810
Cash and cash investments, end of year	\$ 1,048	\$ 4,664	\$ 31,424	\$ –	\$ 37,136

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>[In thousands]</i>					
Condensed Consolidating Statement of Cash Flows for the Year Ended February 28, 2003					
Net cash provided by operating activities	\$ 135,057	\$ 83,491	\$ 17,505	\$ –	\$ 236,053
Cash flows from investing activities:					
Purchases of businesses, net of cash acquired	–	–	–	–	–
Purchases of property, plant and equipment	(15,541)	(39,451)	(16,583)	–	(71,575)
Investment in equity method investee	–	–	–	–	–
Payment of accrued earn-out amount	–	(1,674)	–	–	(1,674)
Proceeds from sale of marketable equity securities	–	–	–	–	–
Proceeds from sale of assets	1	409	878	–	1,288
Proceeds from sale of equity method investment	–	–	–	–	–
Proceeds from sale of business	–	–	–	–	–
Net cash used in investing activities	(15,540)	(40,716)	(15,705)	–	(71,961)
Cash flows from financing activities:					
Proceeds from issuance of long-term debt	–	–	10,000	–	10,000
Exercise of employee stock options	28,706	–	–	–	28,706
Proceeds from employee stock purchases	2,885	–	–	–	2,885
Principal payments of long-term debt	(141,423)	(3,458)	(6,253)	–	(151,134)
Net repayment of notes payable	(48,000)	–	(3,921)	–	(51,921)
Payment of issuance costs of long-term debt	(20)	–	–	–	(20)
Payment of preferred stock dividends	–	–	–	–	–
Proceeds from equity offerings, net of fees	–	–	–	–	–
Other	–	142	(142)	–	–
Net cash used in financing activities	(157,852)	(3,316)	(316)	–	(161,484)
Effect of exchange rate changes on cash and cash investments	38,923	(40,295)	3,613	–	2,241
Net increase (decrease) in cash and cash investments	588	(836)	5,097	–	4,849
Cash and cash investments, beginning of year	838	2,084	6,039	–	8,961
Cash and cash investments, end of year	\$ 1,426	\$ 1,248	\$ 11,136	\$ –	\$ 13,810

21. BUSINESS SEGMENT INFORMATION:

As a result of the Hardy Acquisition, the Company has changed the structure of its internal organization to consist of two business divisions, Constellation Wines and Constellation Beers and Spirits. Separate division chief executives report directly to the Company's chief operating officer. Consequently, the Company reports its operating results in three segments: Constellation Wines (branded wine, and U.K. wholesale and other), Constellation Beers and Spirits (imported beers and distilled spirits) and Corporate Operations and Other. Amounts included in the Corporate Operations and Other segment consist of general corporate administration and finance expenses. These amounts include costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal and public relations. Any costs incurred at the corporate office that are applicable to the segments are allocated to the appropriate segment. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in the chief operating decision maker's evaluation of the operating income performance of the other operating segments.

The new business segments reflect how the Company's operations are being managed, how operating performance within

the Company is being evaluated by senior management and the structure of its internal financial reporting. In addition, the Company changed its definition of operating income for segment purposes to exclude acquisition-related integration costs, restructuring and related charges and net unusual costs that affect comparability. Accordingly, the financial information for the year ended February 28, 2003, has been restated to conform to the new segment presentation.

For the year ended February 28, 2005, acquisition-related integration costs, restructuring and related charges and net unusual costs consist of financing costs associated with the redemption of the Company's Senior Subordinated Notes (as defined in Note 9) and the repayment of the Company's prior senior credit facility of \$31.7 million, the flow through of adverse grape cost (as described below) and acquisition-related integration costs associated with the Robert Mondavi acquisition of \$9.8 million and \$9.4 million, respectively, restructuring and related charges of \$7.6 million, and the flow through of inventory step-up associated with the Hardy Acquisition and the Robert Mondavi acquisition of \$6.5 million, partially offset by a net gain on the sale of non-strategic assets and a gain related to the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture of \$6.1 million. Adverse grape cost represents the amount of historical inventory cost on Robert Mondavi's balance sheet that

exceeds the Company's estimated ongoing grape cost and is primarily due to the purchase of grapes by Robert Mondavi prior to the acquisition date at above-market prices as required under the terms of their existing grape purchase contracts. For the year ended February 29, 2004, acquisition-related integration costs, restructuring and related charges and net unusual costs consist of the flow through of inventory step-up and financing costs associated with the Hardy Acquisition of \$22.5 million and \$11.6 million, respectively, and restructuring and related charges of \$48.0 million, including a write-down of commodity concentrate inventory of \$16.8 million, partially offset by the relief from certain excise tax, duty and other costs incurred in prior years of \$10.4 million. For the year ended February 28, 2003, acquisition-related integration costs, restructuring and related charges and net unusual costs consist of an asset impairment charge of \$4.8 million recorded in connection with the Company's realignment of its business operations within the Constellation Wines segment.

The Company evaluates performance based on operating income of the respective business units. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 1 and include the recently adopted accounting pronouncements described in Note 2. Transactions between segments consist mainly of sales of products and are accounted for at cost plus an applicable margin.

Segment information is as follows:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Constellation Wines:			
Net sales:			
Branded wine	\$1,830,808	\$1,549,750	\$ 983,505
Wholesale and other	1,020,600	846,306	689,794
Net sales	\$2,851,408	\$2,396,056	\$1,673,299
Segment operating income	\$ 406,562	\$ 348,132	\$ 224,556
Equity in earnings of equity method investees	\$ 1,753	\$ 542	\$ 12,236
Long-lived assets	\$1,498,124	\$1,004,906	\$ 509,598
Investment in equity method investees	\$ 259,181	\$ 8,412	\$ 123,064
Total assets	\$6,941,068	\$4,789,199	\$2,429,890
Capital expenditures	\$ 109,240	\$ 94,147	\$ 57,551
Depreciation and amortization	\$ 83,744	\$ 73,046	\$ 46,167
Constellation Beers and Spirits:			
Net sales:			
Imported beers	\$ 922,947	\$ 862,637	\$ 776,006
Spirits	313,283	284,551	282,307
Net sales	\$1,236,230	\$1,147,188	\$1,058,313
Segment operating income	\$ 276,109	\$ 252,533	\$ 217,963
Long-lived assets	\$ 83,548	\$ 80,388	\$ 79,757
Total assets	\$ 790,457	\$ 718,380	\$ 700,545
Capital expenditures	\$ 6,524	\$ 7,497	\$ 8,722
Depreciation and amortization	\$ 10,590	\$ 9,491	\$ 9,732

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Corporate Operations and Other:			
Net sales	\$ -	\$ -	\$ -
Segment operating loss	\$ (55,980)	\$ (41,717)	\$ (32,797)
Long-lived assets	\$ 14,695	\$ 12,068	\$ 13,114
Total assets	\$ 72,647	\$ 51,094	\$ 65,895
Capital expenditures	\$ 3,900	\$ 3,450	\$ 5,302
Depreciation and amortization	\$ 9,321	\$ 19,417	\$ 4,190
Acquisition-Related Integration Costs, Restructuring and Related Charges and Net Unusual Costs:			
Net sales	\$ -	\$ 9,185	\$ -
Operating loss	\$ (58,795)	\$ (71,591)	\$ (4,764)
Consolidated:			
Net sales	\$4,087,638	\$3,552,429	\$2,731,612
Operating income	\$ 567,896	\$ 487,357	\$ 404,958
Equity in earnings of equity method investees	\$ 1,753	\$ 542	\$ 12,236
Long-lived assets	\$1,596,367	\$1,097,362	\$ 602,469
Investment in equity method investees	\$ 259,181	\$ 8,412	\$ 123,064
Total assets	\$7,804,172	\$5,558,673	\$3,196,330
Capital expenditures	\$ 119,664	\$ 105,094	\$ 71,575
Depreciation and amortization	\$ 103,655	\$ 101,954	\$ 60,089

The Company's areas of operations are principally in the United States. Operations outside the United States are primarily in the United Kingdom and Australia and are included within the Constellation Wines segment. Revenues are attributed to countries based on the location of the selling subsidiary.

Geographic data is as follows:

<i>For the Years Ended</i>	<i>February 28, 2005</i>	<i>February 29, 2004</i>	<i>February 28, 2003</i>
<i>(In thousands)</i>			
Net Sales			
United States	\$2,326,253	\$2,125,538	\$1,895,589
Non-U.S.	1,761,385	1,426,891	836,023
Total	\$4,087,638	\$3,552,429	\$2,731,612
Significant non-U.S. revenue sources include:			
United Kingdom	\$1,374,775	\$1,128,022	\$ 789,629
Australia/New Zealand	314,704	238,229	-
Other	71,906	60,640	46,394
Total	\$1,761,385	\$1,426,891	\$ 836,023
Long-lived assets			
United States	\$ 922,161	\$ 459,875	
Non-U.S.	674,206	637,487	
Total	\$1,596,367	\$1,097,362	
Significant non-U.S. long-lived assets include:			
Australia/New Zealand	\$ 437,157	\$ 396,042	
United Kingdom	175,638	183,214	
Other	61,411	58,231	
Total	\$ 674,206	\$ 637,487	

22. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED:

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs – an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43 ("ARB No. 43"), "Restatement and Revision of Accounting Research Bulletins," Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is required to adopt SFAS No. 151 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 151 on its consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) ("SFAS No. 123(R)"), "Share-Based Payment." SFAS No. 123(R) replaces Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25 ("APB Opinion No. 25"), "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the cost resulting from all share-based payment transactions be recognized in the financial statements. In addition, SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a grant date fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) also amends Statement of Financial Accounting Standards No. 95 ("SFAS No. 95"), "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123(R) applies to all awards granted, modified, repurchased, or cancelled after the required effective date (see below). In addition, SFAS No. 123(R) requires entities that used the fair-value-based method for either recognition or disclosure under SFAS No. 123 to apply SFAS No. 123(R) using a modified version of prospective application. This application requires compensation cost to be recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered based on the grant date fair value of those awards as calculated under SFAS No. 123 for either recognition or pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123. In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), "Share Based Payment," to express the views of the staff regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements

for public companies. The Company is required to adopt SFAS No. 123(R) for interim periods beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 123(R) on its consolidated financial statements and will take into consideration the additional guidance provided by SAB No. 107 in connection with the Company's adoption of SFAS No. 123(R).

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29." SFAS No. 153 amends Accounting Principles Board Opinion No. 29 ("APB No. 29"), "Accounting for Nonmonetary Transactions," to eliminate the exception from fair value measurement for non-monetary exchanges of similar productive assets and replace it with a general exception from fair value measurement for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company is required to adopt SFAS No. 153 for fiscal years beginning March 1, 2006. The Company is currently assessing the financial impact of SFAS No. 153 on its consolidated financial statements.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. The AJCA includes a special one-time 85% dividends received deduction for certain foreign earnings that are repatriated. In December 2004, the FASB issued FASB Staff Position No. FAS 109-2 ("FSP FAS 109-2"), "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP FAS 109-2 provides accounting and disclosure guidance for this repatriation provision. Although FSP FAS 109-2 is effective immediately, the Company is currently assessing the impact of guidance issued by the Treasury Department and the Internal Revenue Service on May 10, 2005, as well as the relevance of additional guidance expected to be issued. The Company expects to complete its evaluation of the effects of the repatriation provision within a reasonable period of time following the publication of the additional guidance.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143." FIN No. 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations." A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 is effective for the Company no later than the end of the year ending February 28, 2006. The Company is currently assessing the financial impact of FIN No. 47 on its consolidated financial statements.

23. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

A summary of selected quarterly financial information is as follows:

<i>Quarter Ended Fiscal 2005</i>	<i>May 31, 2004</i>	<i>August 31, 2004</i>	<i>November 30, 2004</i>	<i>February 28, 2005</i>	<i>Full Year</i>
<i>(In thousands, except per share data)</i>					
Net sales	\$927,305	\$1,036,941	\$1,085,711	\$1,037,681	\$4,087,638
Gross profit	\$250,462	\$ 289,683	\$ 313,664	\$ 286,780	\$1,140,589
Net income ⁽¹⁾	\$ 51,329	\$ 80,614	\$ 96,893	\$ 47,628	\$ 276,464
Earnings per common share ⁽²⁾ :					
Basic – Class A Common Stock	\$ 0.23	\$ 0.37	\$ 0.44	\$ 0.21	\$ 1.25
Basic – Class B Common Stock	\$ 0.21	\$ 0.33	\$ 0.40	\$ 0.19	\$ 1.14
Diluted	\$ 0.22	\$ 0.35	\$ 0.42	\$ 0.20	\$ 1.19

<i>Quarter Ended Fiscal 2004</i>	<i>May 31, 2003</i>	<i>August 31, 2003</i>	<i>November 30, 2003</i>	<i>February 29, 2004</i>	<i>Full Year</i>
<i>(In thousands, except per share data)</i>					
Net sales ⁽³⁾	\$772,802	\$ 911,064	\$ 987,248	\$ 881,315	\$3,552,429
Gross profit ⁽³⁾	\$209,085	\$ 240,532	\$ 282,616	\$ 243,555	\$ 975,788
Net income ⁽⁴⁾	\$ 39,189	\$ 35,564	\$ 82,840	\$ 62,821	\$ 220,414
Earnings per common share ⁽²⁾ :					
Basic – Class A Common Stock	\$ 0.21	\$ 0.18	\$ 0.39	\$ 0.29	\$ 1.08
Basic – Class B Common Stock	\$ 0.19	\$ 0.16	\$ 0.35	\$ 0.26	\$ 0.98
Diluted	\$ 0.20	\$ 0.17	\$ 0.36	\$ 0.27	\$ 1.03

(1) In Fiscal 2005, the Company recorded net unusual costs consisting of financing costs associated with the redemption of senior subordinated notes and the repayment of the Company's prior senior credit facility; the flow through of adverse grape cost associated with the Robert Mondavi acquisition; acquisition-related integration costs associated with the Robert Mondavi acquisition; restructuring and related charges resulting primarily from (i) the realignment of business operations in the Constellation Wines segment and (ii) the Robert Mondavi acquisition; the flow through of inventory step-up associated with the Hardy Acquisition and the Robert Mondavi acquisition; and other, which include net gains from the sale of non-strategic assets and the receipt of a payment associated with the termination of a previously announced potential fine wine joint venture. The following table identifies these items, net of income taxes, by quarter and in the aggregate for Fiscal 2005:

<i>Quarter Ended Fiscal 2005</i>	<i>May 31, 2004</i>	<i>August 31, 2004</i>	<i>November 30, 2004</i>	<i>February 28, 2005</i>	<i>Full Year</i>
<i>(In thousands, net of tax)</i>					
Financing costs	\$ 6,601	\$ –	\$ –	\$ 13,684	\$ 20,285
Flow through of adverse grape cost	–	–	–	6,240	6,240
Acquisition-related integration costs	–	–	–	6,029	6,029
Restructuring and related charges	1,032	748	1,052	2,018	4,850
Flow through of inventory step-up	829	622	1,210	1,479	4,140
Other	–	–	–	(3,916)	(3,916)
Total restructuring and related charges and net unusual costs	\$ 8,462	\$ 1,370	\$ 2,262	\$ 25,534	\$ 37,628

(2) Effective June 1, 2004, the Company adopted EITF No. 03-6 (see Note 1). Earnings per share – basic reflects the application of EITF No. 03-6 and has been computed using the two-class method for all periods presented. The sum of the quarterly earnings per common share in Fiscal 2005 and Fiscal 2004 may not equal the total computed for the respective years as the earnings per common share are computed independently for each of the quarters presented and for the full year.

(3) In the third quarter of fiscal 2004, the Company revised its accounting policy with regard to the income statement presentation of the reclassification adjustments of cash flow hedges of certain sales transactions. These cash flow hedges are used to reduce the risk of foreign currency exchange rate fluctuations resulting from the sale of product denominated in various foreign currencies. As such, the Company's revised accounting policy is to report the reclassification adjustments from AOCI to sales. Previously, the Company reported such reclassification adjustments in selling, general and administrative expenses. This change in accounting policy resulted in a reclassification which increased selling, general and administrative expenses and sales by \$1.2 million and \$2.3 million for the three months ended May 31, 2003, and August 31, 2003, respectively. This reclassification did not affect operating income or net income.

(4) In Fiscal 2004, the Company recorded net unusual costs consisting of restructuring and related charges resulting from (i) the realignment of business operations in the Constellation Wines segment and (ii) the Company's decision to exit the commodity concentrate product line in the U.S. and sell its winery located in Escalon, California; the flow through of inventory step-up and financing costs associated with the Hardy Acquisition; gains from the relief of certain excise tax, duty and other costs incurred in prior years, imputed interest charge associated with the Hardy Acquisition, and a gain on changes in fair value of derivative instruments associated with the Hardy Acquisition. The following table identifies these items, net of income taxes, by quarter and in the aggregate for Fiscal 2004:

<i>Quarter Ended Fiscal 2004</i>	<i>May 31, 2003</i>	<i>August 31, 2003</i>	<i>November 30, 2003</i>	<i>February 29, 2004</i>	<i>Full Year</i>
<i>(In thousands, net of tax)</i>					
Restructuring and related charges	\$ 1,482	\$ 10,934	\$ 5,176	\$ 2,347	\$ 19,939
Flow through of inventory step-up	3,531	5,770	1,741	3,340	14,382
Concentrate inventory write-down	–	10,769	–	–	10,769
Financing costs	2,582	3,334	1,490	–	7,406
Relief of certain excise tax, duty and other costs	–	–	–	(6,678)	(6,678)
Imputed interest charge	1,061	–	–	–	1,061
Gain on changes in fair value of derivative instruments	(756)	–	–	–	(756)
Total restructuring and related charges and net unusual costs	\$ 7,900	\$ 30,807	\$ 8,407	\$ (991)	\$ 46,123

METHODS OF DISTRIBUTION

In North America, the Company's products are primarily distributed by more than 850 wholesale distributors as well as state and provincial alcoholic beverage control agencies. As is the case with all other beverage alcohol companies, products sold through state or provincial alcoholic beverage control agencies are subject to obtaining and maintaining listings to sell the Company's products in that agency's state or province. State and provincial governments can affect prices paid by consumers of the Company's products. This is possible either through the imposition of taxes or, in states and provinces in which the government acts as the distributor of the Company's products through an alcoholic beverage control agency, by directly setting retail prices for the Company's products.

In the U.K. the Company's products are distributed either directly to retailers or through wholesalers and importers. The Company's U.K. wholesaling business sells and distributes the Company's branded products and those of other major drinks companies to on-premise locations through a network of depots located throughout the United Kingdom. In Australasia and other markets, the Company's products are primarily distributed either directly to retailers or through wholesalers and importers. In Australasia, the distribution channels are dominated by a small number of industry leaders.

COMMON STOCK PRICES AND DIVIDENDS

The following tables set forth for the periods indicated the high and low sales prices of the Class A Stock and the Class B Stock as reported on the NYSE, adjusted to give retroactive effect to the May 13, 2005, two-for-one stock splits.

<i>Class A Stock</i>	<i>1st Quarter</i>	<i>2nd Quarter</i>	<i>3rd Quarter</i>	<i>4th Quarter</i>
Fiscal 2004				
High	\$13.83	\$15.90	\$17.33	\$17.96
Low	\$10.95	\$13.31	\$14.35	\$14.65
Fiscal 2005				
High	\$18.13	\$19.97	\$22.59	\$28.67
Low	\$15.45	\$17.70	\$18.01	\$22.33

<i>Class B Stock</i>	<i>1st Quarter</i>	<i>2nd Quarter</i>	<i>3rd Quarter</i>	<i>4th Quarter</i>
Fiscal 2004				
High	\$13.83	\$15.98	\$17.13	\$17.93
Low	\$11.38	\$13.68	\$14.50	\$15.13
Fiscal 2005				
High	\$18.03	\$19.82	\$22.68	\$28.64
Low	\$15.37	\$18.08	\$18.15	\$22.70

The Company has not paid any cash dividends on its common stock since its initial public offering in 1973. In addition, under the terms of the Company's senior credit facility, the Company is currently constrained from paying cash dividends on its common stock. Also, the indentures for the Company's outstanding senior notes and senior subordinated notes may restrict the payment of cash dividends on its common stock under certain circumstances. Any indentures for debt securities issued in the future and any credit agreements entered into in the future may also restrict or prohibit the payment of cash dividends on common stock. During April 2005, the Company's Board of Directors approved two-for-one stock splits of the Company's Class A Stock and Class B Stock, which were distributed in the form of stock dividends on May 13, 2005, to stockholders of record on April 29, 2005. Share and per share amounts have been retroactively restated to give effect to these common stock splits.

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting of the Company. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as of February 28, 2005. This evaluation excluded the internal control over financial reporting of The Robert Mondavi Corporation ("Robert Mondavi"), which the Company acquired on December 22, 2004. Management did not have adequate time to gather sufficient evidence about the design and operating effectiveness of internal control over financial reporting for Robert Mondavi from the date of acquisition through February 28, 2005; therefore, Management was not able to perform an evaluation with respect to the effectiveness of internal control over financial reporting for Robert Mondavi. As of February 28, 2005, the assets, net sales, and income before income taxes of Robert Mondavi comprised 23.6%, 2.1%, and 0.6% of the consolidated total assets, net sales, and income before income taxes of the Company.

Management's assessment of the effectiveness of the Company's internal control over financial reporting has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

The Board of Directors and Stockholders
Constellation Brands, Inc.:

We have audited the accompanying consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2005 and February 29, 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Constellation Brands, Inc. and subsidiaries as of February 28, 2005 and February 29, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended February 28, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Constellation Brands, Inc.'s internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 16, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Rochester, New York
May 16, 2005

The Board of Directors and Stockholders
Constellation Brands, Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Constellation Brands, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Constellation Brands, Inc. maintained effective internal control over financial reporting as of February 28, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Constellation Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Constellation Brands, Inc. acquired The Robert Mondavi Corporation on December 22, 2004, and management excluded from its assessment of the effectiveness of Constellation Brands, Inc.'s internal control over financial reporting as of February 28, 2005, The Robert Mondavi Corporation's internal control over financial reporting associated with assets, net sales and income before income taxes comprising 23.6%, 2.1% and 0.6% of the consolidated total assets, net sales and income before income taxes of the Company as of and for the year ended February 28, 2005. Our audit of internal control over financial reporting of Constellation Brands, Inc. also excluded an evaluation of the internal control over financial reporting of The Robert Mondavi Corporation.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Constellation Brands, Inc. and subsidiaries as of February 28, 2005 and February 29, 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2005, and our report dated May 16, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Rochester, New York
May 16, 2005

DIRECTORS

RICHARD SANDS

Chairman of the Board and Chief Executive Officer,
Constellation Brands, Inc.

ROBERT SANDS

President and Chief Operating Officer,
Constellation Brands, Inc.

GEORGE BRESLER⁽³⁾

Senior Counsel of the law firm of
Kurzman Eisenberg Corbin Lever & Goodman, LLP

JEANANNE K. HAUSWALD^(1,2,3)

Managing Partner, Solo Management Group, LLC;
Retired from The Seagram Company Ltd.

JAMES A. LOCKE III⁽³⁾

Partner of the law firm of Nixon Peabody LLP

THOMAS C. MCDERMOTT^(1,2,3)

Chairman of GPM Associates, LLP

PAUL L. SMITH^(1,2,3)

Retired from Eastman Kodak Company

EXECUTIVE OFFICERS

RICHARD SANDS

Chairman of the Board and Chief Executive Officer,
Constellation Brands, Inc.

ROBERT SANDS

President and Chief Operating Officer,
Constellation Brands, Inc.

F. PAUL HETTERICH

Executive Vice President, Business Development and
Corporate Strategy, Constellation Brands, Inc.

THOMAS J. MULLIN

Executive Vice President and General Counsel,
Constellation Brands, Inc.

THOMAS S. SUMMER

Executive Vice President and Chief Financial Officer,
Constellation Brands, Inc.

W. KEITH WILSON

Executive Vice President and Chief Human Resources Officer,
Constellation Brands, Inc.

ALEXANDER L. BERK*

Chief Executive Officer, Constellation Beers and Spirits

STEPHEN B. MILLAR*

Chief Executive Officer, Constellation Wines

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Human Resources Committee

⁽³⁾ Member of Corporate Governance Committee

* Mr. Berk is employed by Barton Incorporated and

Mr. Millar is employed by Hardy Wine Company Limited

WINE

California:

Blackstone Winery (Gonzales, Calif. – Monterey County)
 Blackstone Winery (Kenwood, Calif. – Sonoma County)
 Dunnewood Vineyards (Ukiah, Calif.)
 Estancia Winery (Soledad, Calif. – Monterey County)
 Franciscan Vineyards (Rutherford, Calif.)
 Mission Bell Winery (Madera, Calif.)
 Paul Masson Cellars & Vintners (Madera, Calif.)
 Ravenswood Wineries (Sonoma, Calif.)
 Robert Mondavi Winery (Oakville, Calif.)
 Simi Winery (Healdsburg, Calif.)
 Turner Road Vintners Wineries
 (Lodi/Woodbridge, Calif.)
 Woodbridge Winery (Acampo, Calif.)

Idaho:

Ste. Chapelle Winery (Caldwell, Idaho)

New York:

Canandaigua Winery (Canandaigua, N.Y.)
 Widmer's Wine Cellars (Naples, N.Y.)

Washington:

Columbia Winery (Woodinville, Wash.)
 Sunnyside Operations (Sunnyside, Wash.)

Australia:

South Australia

Berri Estates Winery, Clare
 Leasingham Winery, Padthaway
 Reynella Winery, Reynella
 Stonehaven Winery, Glossop
 Tintara Winery, McLaren Vale

Western Australia

Houghton Winery, Upper Swan
 Nannup Winery, Nannup

New South Wales

Stanley Winery, Buronga

Australian Capital Territory

Kamberra Winery, Canberra

Tasmania

Bay of Fires Winery, Pipers River

Chile:

Veramonte Winery (Casablanca, Chile)

England:

Bristol Winery (Bristol, England)

New Zealand:

Drylands Winery (Marlborough, South Island)
 Hawkes Bay Winery (Hawkes Bay, North Island)
 Huapai Winery (West Auckland, North Island)

CIDER

Shepton Mallet (Somerset, England)

BOTTLED WATER

Strathmore Mineral Water Co. (Forfar, Scotland)

SPIRITS

Barton Brands of California, Inc. (Carson, California)
 Barton Brands of Georgia, Inc. (Atlanta, Georgia)
 Barton Brands, Ltd. (Bardstown, Kentucky)
 Barton Brands, Ltd. (Owensboro, Kentucky)

Schenley Distilleries Inc. (Valleyfield, Quebec, Canada)
 The Black Velvet Distilling Co. (Lethbridge, Alberta, Canada)
 Viking Distillery, Barton Brands of Georgia, Inc.
 (Albany, Georgia)

CORPORATE HEADQUARTERS

Constellation Brands, Inc.
370 Woodcliff Drive, Suite 300
Fairport, New York 14450
585.218.3600
888.724.2169
cbrands.com
Investor Center: 888.922.2150

STOCK AND DEPOSITARY SHARE TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
800.288.9541 (toll free, within the U.S.)
201.329.8660 (outside the U.S.)
melloninvestor.com

COMMON STOCK TRADING

The Company's Class A and Class B Common Stock trade on the New York Stock Exchange (NYSE) under the ticker symbols STZ and STZ.B, respectively. As of April 29, 2005, there were 1,007 and 226 holders of record of Class A and Class B Common Stock, respectively.

DEPOSITARY SHARE TRADING

Depositary Shares each representing 1/40 of a share of the Company's 5.75% Series A Mandatory Convertible Preferred Stock trade on the NYSE under the ticker symbol STZPrA.

CDI TRANSFER AGENT AND REGISTRAR

ComputerShare Investor Services Pty Limited
Level 5
115 Grenfell Street
Adelaide
South Australia 5000
OR
GPO Box 1903
Adelaide
South Australia 5001
1800.030.606 (within Australia)
61.3.9415.4000 (outside Australia)

CDI TRADING

CHESS Depositary Interests trade on the Australian Stock Exchange (ASX) under the ticker symbol CBR. As of April 29, 2005, there were 882 holders of record.

ANNUAL CERTIFICATION

The Company has filed with the Securities and Exchange Commission, as exhibits to its Annual Report on Form 10-K for the fiscal year ended February 28, 2005, the Certifications of the Company's Chief Executive Officer and its Chief Financial Officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. In addition, in 2004 the Company submitted to the New York Stock Exchange the required annual certification of the Company's Chief Executive Officer that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

DIVIDEND POLICY

With respect to its common stock, the Company's policy is to retain all of its earnings to finance the development and expansion of its business, and the Company has not paid any cash dividend on its common stock since its initial public offering in 1973. The Company pays quarterly dividends on its preferred stock in accordance with its terms.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

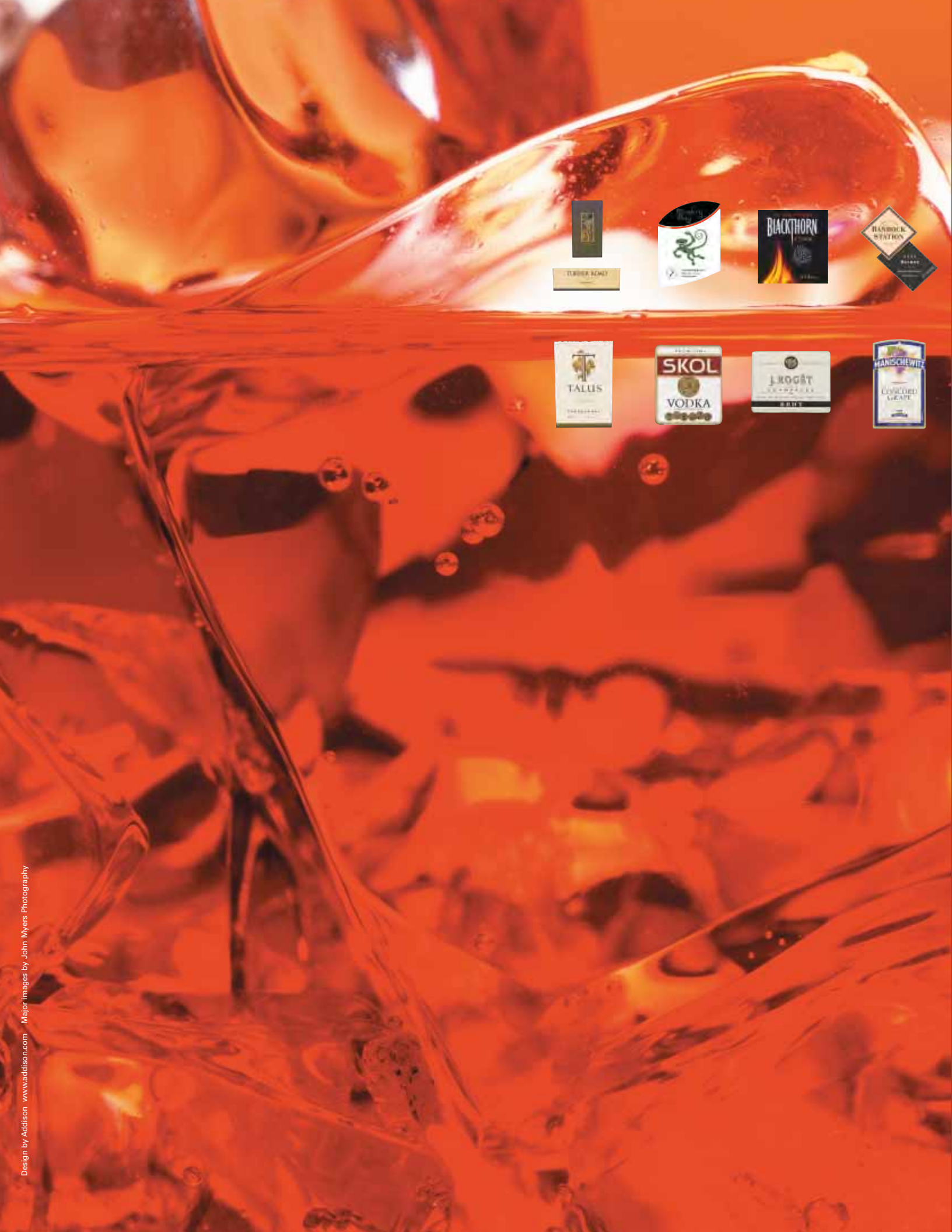
The statements set forth in this report, which are not historical facts, are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those set forth in, or implied by, the forward-looking statements. For risk factors associated with the Company and its business, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2005.

ADDITIONAL COPIES OF FORM 10-K

The Annual Report on Form 10-K may be obtained by contacting Constellation Brands, Inc.'s Investor Relations department at our corporate headquarters address provided on this page. Alternatively, a copy is available on our Constellation Brands' Web site at cbrands.com, or by request from the Securities and Exchange Commission.

ANNUAL STOCKHOLDERS' MEETING

The annual meeting is scheduled to be held at 11:00 a.m. on Thursday, July 28, 2005, Eastern time, at the Rochester Riverside Convention Center, 123 East Main Street, Rochester, New York.





Constellation Brands, Inc.

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